Austria	Sch30	Iran	Rls210	Pakistan	Rs35
Bahrain	Din0.500	Israel	Shk4.00	Philippines	Peso40
Belgium	BFr60	Italy	L2200	Poland	Zl 11,000
Cyprus	C£1.00	Jordan	JD1.20	Portugal	Esc165
Denmark	DKr13	Korea	Won 2000	Qatar	QR10.00
Egypt	E£3.50	Kuwait	Fils.500	S.Arabia	SR8.00
Finland	FM8.50	Lebanon	L£1,800	Singapore	S$4.10
France	FFr7.50	Lux	LFr60	Spain	Pta175
Germany	DM3.00	Malaysia	M$4.50	Sweden	SKr13
Greece	Dr200	Morocco	MDh10	Switz	SFr2.70
Hungary	Ft145	Neth	Fl 3.50	Thailand	Bt60
Iceland	IKr180	Nigeria	Naira15	Tunisia	Din0.800
India	Rs28	Norway	NKr13.00	Turkey	L3000
Indonesia	Rp3100	Oman	OR1.20	UAE	Dh8.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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D 8523A

CHILE

Guarded step towards democracy

Page 15

World News

US warns Iraq on use of chemical weapons

The US warned the Iraqi government of "serious consequences" if it uses chemical weapons to suppress internal unrest.

US officials refused to say what the reaction might be, but there were reports yesterday that the options might include air strikes against Iraqi military units equipped with poison gas. Page 16; Gulf reports, Page 2

Albanian clampdown

Albania's ruling communists declared the port of Durres a military zone after 15,000 people seized ships last week and crossed into Italy. The move came after the Italian government said it would send back the refugees. Page 3

Poll date decision

Rajiv Gandhi's Congress Party ended days of manoeuvring by India's politicians aimed at staving off a general election by announcing that it had formally requested polls in May.

Slovaks 'can secede'

Czech president Vaclav Havel said he would not stand in the way of Slovak secession from the Czechoslovak federation but advised against a split into separate states.

Quebec autonomy

Quebec's Liberal Party adopted the highly nationalistic Allaire Report urging sweeping new powers for the province and a referendum on sovereignty by late-1992. Page 4

Close vote likely

Fighting in El Salvador's 11-year civil war stopped as thousands of voters turned out for the country's national and municipal elections. A close result is expected. Page 4

Papandreou on trial

The long-awaited trial of Andreas Papandreou, the former Greek prime minister accused of corruption, starts today amid doubts that the main prosecution witness will testify. Page 4

Jumbo jet blaze

An engine of a Philippine Airlines Boeing 747 airliner caught fire after landing at Manila airport. None of the 287 people on board was hurt.

7 die in Kashmir

At least seven people were killed in separatist violence in Kashmir amid reports of unprecedented battles between militants and Indian troops near the Pakistan border.

Israeli stabbings

Israeli police shot and detained an Arab man who stabbed four Israeli women to death near a Jerusalem playground. Page 2

Early poll rejected

Poland's parliament, ignoring a request from President Lech Walesa for elections to be held by May 26, voted to hold the poll in the autumn. Page 3

Township violence

Police put the death toll in a township clash between rival black South African factions at 28 after recovering more corpses from a squatter camp on Johannesburg's outskirts.

Paris rappers brawl

A brawl between 500 spectators at a rap music concert in Paris left six people injured and forced authorities to call a halt to the concert.

Pennies into pounds

The old-style Irish penny – defunct for 20 years since the introduction of decimal coinage – is making an illegal comeback in Dublin. Machine cheats have found that the old *penny* can be used as a substitute for Ireland's new £1 coin to buy cigarettes and other items at a fraction of their proper price.

Business Summary

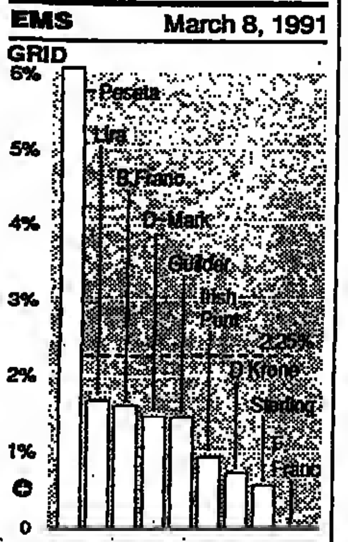
Group Bull warns that losses will top FFr6bn

Group Bull, the troubled French computer manufacturer, expects group losses for 1990 to exceed FFr6bn ($1.14bn). In 1989 the company incurred a deficit of FFr267m.

Operational losses for 1990 will be about FFr3bn, in line with forecasts made by Francis Lorentz, the group chief executive, late last year. Page 17

EUROPEAN Monetary System: Spanish peseta touched its ceiling against weakest-placed French franc in exchange rate mechanism last week. Speculation that Bank of Spain would ease its monetary stance proved unfounded, but Belgian National Bank might be tempted by strength of Belgian franc to cut official rates this week, according to dealers. Sterling traded comfortably despite a fall in London money rates to a level discounting another cut in bank base rates. Currencies, Page 27

EMS March 8, 1991



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands.

PAN AM: Future of cash-strapped US airline hung in balance after company failed to make full loan repayment due to Bankers Trust and United Airlines. Page 17

INTERNATIONAL Leisure Group: UK government will come under attack in parliament over its handling of collapse of ILG, Air Europe and Intasun travel company.

TELECOMMUNICATIONS: US companies will be able to offer rival international telephone services to UK subscribers in competition with British Telecom and Mercury Communications when US government lifts restrictions on UK telecoms groups. Page 16

ARGENTINA intends to sign new $1bn stand-by loan with International Monetary Fund in April. Page 4

UNITED Bus, majority-owned bus and coach subsidiary of Dutch commercial vehicle maker DAF, plans private share issue totalling around Fl 85m ($49m) Page 19

ROBERT Maxwell, UK publisher, returned to *New York* in last-ditch effort to reach deal with striking unions at loss-making New York Daily News. Page 17

COOPERS & Lybrand Deloitte, UK's largest accountancy firm, will make 200 of its 12,000 employees redundant over next six months. Page 17

CAVENDISH International Holdings, property to energy subsidiary of Hutchison Whampoa, made 29 per cent increase to HK$1.32bn ($169m) in after-tax consolidated profits for 1990. Page 19

Huge demonstrations call for creation of new opposition party

Thousands march for Yeltsin

By Anthony Robinson in Moscow

HUNDREDS of thousands of demonstrators poured into the streets of Moscow and other big cities yesterday chanting support for Mr Boris Yeltsin, the Russian president, in his call for "war" on the communist leadership and for the creation of a powerful, united opposition party.

The crowds called for the resignation of the Soviet president, Mikhail Gorbachev, in what appeared to be the largest ever anti-communist demonstration in the Soviet Union.

It happened only a week before a crucial referendum on whether the Soviet Union should be preserved as a unitary state.

In Moscow, nearly half a million surged along the broad central thoroughfares to the Manezh Square near the Kremlin, praising Mr Yeltsin and showing their contempt for Mr Gorbachev and the Communist party.

The crowds cheered as Mr Gavril Popov, Moscow's radical mayor, called for a massive "no" vote in next Sunday's referendum. He and other speakers made clear that the opposition intends to transform it into a vote of no-confidence in e party "which has brought the country to the brink of disaster."

As the crowd passed tha new headquarters of the Military General Staff on Kalinin Prospekt, demonstrators also called for the resignation of Marshal Dimitri Yazov, tha defence minister, symbol of a resurgent military establishment which is believed to be backing a return to old-style authoritarian rule.

Lined old women, veterans of a thousand meat queues, stood cheek by jowl with young intellectuals, workers and striking coal miners to cheer as speaker after speaker denounced Mr Gorbachev, the Communist party and the referendum.

The Soviet economy is forecast to dive into a recession so deep that its own official forecasters are making comparisons with the famines which beset the country in the early 1930s Details, Page 16

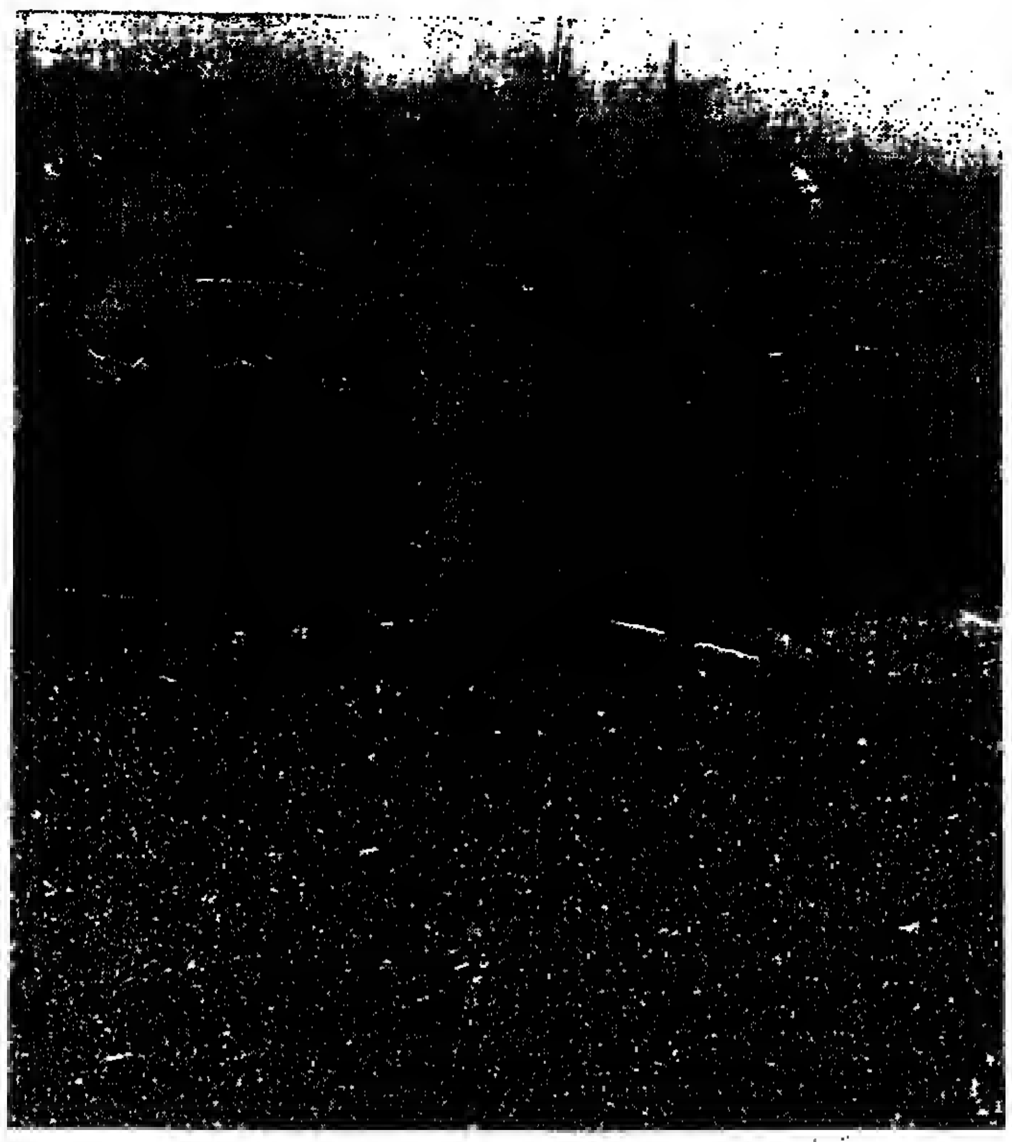
Mr Gorbachev has claimed that a majority of the 15 republics support a new draft union treaty which represents the constitutional foundation of the future Soviet federation.

However, the three Baltic republics and Georgia are pushing for outright independence and other republics, including Russia, the Ukraine, Byelorussia and Khazakstan have demanded both greater powers and a reduced role for Moscow.

The treaty as it now stands reserves key economic, military and foreign policy decisions to Moscow.

Mr Oleg Kalugin, a former senior KGB officer, attacked Mr Gorbachev and other senior government figures for accusing democratic forces of leading the country towards civil war. "Only the Communist party is capable of unleashing a civil war. It is the only force which is ready and armed to launch a war of any kind," he said. The only way democratic forces could withstand this would he through mass civil disobedience, he added.

Mr Nikolai Travkin, leader of the Democratic Party of Russia, a non-communist radical party, said the union treaty would lead to the dismemberment of the Russian federation, as several autonomous republics now included in the federation would be given quasi-sovereign status.



The scene in sight of the Kremlin yesterday as thousands rallied against the government

Major to underline positive approach on Europe

By Our Foreign and Political staff

MR John Major, the British prime minister, will today underline tha more positive approach of his government to European integration at the Anglo-German summit in Bonn with West German Chancellor Helmut Kohl.

The summit will follow the stark warning issued at the week-end in US television interviews by Mrs Margaret Thatcher, the former UK premier, against the emergence of a federal European "super state," which inevitably risked being dominated by Germany.

In spite of this warning by his predecessor, officials have stressed that Mr Major will not be deflected from his policy of building further on the close relationship with Mr Kohl that he has established over the past few months.

In a speech tonight to the Konrad Adenauer Foundation, Mr Major, who has effectively reversed Mrs Thatcher's policy towards Germany since succeeding her last November, is expected to stress that he sees a powerful alliance between London and Bonn as central to Europe's future.

Senior British Ministers say that Mr Majnr's diplomacy, underlined by frequent telephone calls to Mr Kohl, has been rewarded by Bonn's more sceptical epproach to the Delors plan for economic and monetary union.

Recent statements from German Ministers that they are prepared to see the establishment of a European central bank delayed for several years after the start of stage two of EMU in 1994, are seen in London as evidence that Britain's gradualist approach to EMU is now winning firm support.

In spite of Bonn's protestations over the past two weeks that it remains fully committed to EMU, Mr Kohl has in fact introduced an additional condition into the process. The Chancellor is now saying that EMU should be dependent not only on the "convergence" of the aconnmic situations in European Community member countries, but also on the success of parallel moves towards political union.

His message to Mr Kohl will be that, while Britain intends to play a central role in shaping the future of Europe, that would not include acceptance of every proposal for further joint decision-making, particularly in the foreign and defence policy fields.

Belgrade under siege after violent clashes

By Laura Silber in Belgrade

SERBIAN paramilitary and army units were yesterday holding Belgrade, the Yugoslav capital, under siege following violent clashes with anti-communist demonstrators at the weekend.

Federal army units moved into Belgrade, which is also the capital of Serbia, after police used firearms, water cannon and tear gas to disperse about 40,000 demonstrators.

At least two people were killed, a policeman, aged 54, and a protester, aged 17, and scores were injured.

The demonstrators had gathered to protest against the control of the media by the Serbian state, whose president is Mr Slobodan Milosevic. "The only goal of our demonstration was to gain objective non-party media... It seems that truth is nowhere as expensive in Europe as in Serbia", Mr Zoran Djindjic, a leader of the opposition Democratic party, said yesterday.

The Serbian authorities, which had banned the demonstration, justified the crackdown in order "to stop looting and destructive forces aimed et tearing apart Belgrade and Serbia."

Helicopters circled as tanks, armoured personnel carriers and battalions of special police dressed in military camouflage, yesterday occupied the city's central square until the evening when tanks were withdrawn.

The smashed shop windows and the screams of young people whom police dragged into waiting vehicles made the city centre seem as though Yugoslavia was under enemy occupation.

Police randomly stopped dazed pedestrians to check their identity papers. Patrols of police in full riot gear sporadically beat and arrested people. They baton-charged youths who ran in from side streets to whistle and jeer. Several journalists and photographers, many of whom bad film confiscated, were threatened with "a beating or arrest".

Studio B, Belgrade's only independent television station, has been banned from transmitting any news programmes after carrying a live broadcast of Saturday's demonstration.

Belgrade's residents are now cut off from any non-communist controlled media. Newspapers from the other Yugoslav republics were sold out early in the day es people desperetely searched for an account on what really happened at the weekend.

The authorities have not yet officially released the number of arrests. Bnt the

Continned on Page 16
Myth of Serbian unity, Page 3

North Korea takes first step to open economy to western trade

By John Ridding, recently in Pyongyang

NORTH KOREA is taking steps to open up its tightly sealed economy and will soon repay debts on which it has defaulted, according to a senior executive of one of two state banks responsible for international trade.

Mr Chang Gon Il, vice-president of the Koree Daesong Bank, said Pyongyang will increase imports of machinery and equipment from the west in an attempt to modernise its economy.

Purchases would be financed by sales of mineral and other natural resources on the international market, he said.

His commants, made in a rare interview hy a senior North Korean financial official, reflect a reaction to difficulties facing the North Korean economy and the breakdown in barter trade relations with traditional economic partners.

Last month, as an indication of North Korea's desire to break out of its self-imposed economic and financial isolation, Mr Yon Hyong Muk, the prime minister, expressed full support for a proposal by Malaysia to establish an east Asian economic grouping.

From the start of this year, the Soviet Union, which is North Korea's foremost trading partner, has demanded hard currency for its oil exports to the country.

"We have plenty of natural resources, but we need up to date machinery to exploit them. For that we need hard currency," said Mr Chang.

"We have the resources and are ready to refund our creditors very soon," he said, referring to North Korea's outstanding debts.

The country still owes more than $800m to western banks after defeulting on syndicated loans arranged in tbe early 1970s.

North Korea's Foreign Trade Bank, which arranged the loans, is holding meetings with creditors in Germany.

But western diplomats in Pyongyang and Peking gave a cautious response to Mr Chang's comments. "They have told us before that they want to repay their debts, but we haven't seen the money," said one senior diplomat whose country is owed cash hy Pyongyang.

"Our companies are reluctant to trade until this issue is resolved," be added.

Nonetheless, Mr Chang's comments appear to reflect a significant departure from North Korea's traditional strategy of isolation and self sufficiency.

Referring to the philosophy of *juche*, the political doctrine of the regime of President Kim Il Sung, which has held sway since the end of the second world war, and which emphasises self sufficiency, Mr Chang said: "Self sufficiency is not producing all and spending all by ourselves entirely. We have potential and want to use it to its utmost."

He named computers as well as office automation, mining and fishing equipment as

Continued on Page 16

CONTENTS

THE MONDAY INTERVIEW

British trade and industry secretary Pater Lilley is, unjustly, not much known for his aense of humour. But a colleague who has observed him closely says he is "probably the most intelligent man in the Cabinet". **Page 32**

FT SURVEYS THIS WEEK

Industry and the Environment

Above: dark clouds over en eastern European power station – clean-up problems present a vast challenge. *(Wednesdey's survay).*

Baker presents four-point programme to allies

Arabs back plan for Mideast peace initiative

By Tony Walker in Cairo

MR James Baker, the US secretary of state, yesterday won broad support from America's Arab allies for a new Middle East peace initiative at a post-Gulf war strategy meeting in Riyadh.

But differences emerged as to how the process should be advanced, with Syria urging that an International Middle East peace conference be convened as soon as possible – a step that is opposed by Israel.

Mr Baker, on the first leg of a regional tour that will also take him to Egypt, Israel, Syria and Turkey, presented a four-point US peace programme for a new security structure, economic assistance for regional "have-nots", arms control, and steps towards resolving the vexed Arab-Israel dispute.

On his way to the Middle East, the US official spoke of a "twin track" approach to securing the peace following the Gulf war. This would include confidence-building gestures by the pro-western Arabs towards Israel and a concerted effort to deal with the Palestine question.

Mr Baker said after his 90-minute meeting with foreign ministers of the six Gulf Co-oparation Council statas, plus Egypt and Syria, that there was a "convergence of views" on regional security matters. He also said there had been a "fair degree" of agreement on arms control, economic co-operation and tbs Arab-Israel conflict.

Washington has always been reluctant to endorse a Middle East peace conference because of Israel's likely strong opposition, but it has not ruled out such a gathering at some stage provided it had some chance of advancing the process.

Mr Farouk al-Shara, Syria's foreign minister, told reporters there was a "consensus" among Arab representatives at yesterday's meeting for an international conference under UN auspices.

In his discussions on new post-war security arrangements, Mr Baker is understood to have welcomed a decision taken in Damascus last week by the eight members of the anti-Iraq coalition to form a regional peacekeeping force to deter conflict in the Gulf.

The US official was reported to have discnssed ways in which Washington might help to underpin a new security structure by stationing forces in the region on a semi-permanent basis.

Prince Saud al-Faisal, the Sandi foreign minister, said Mr Baker's visit to the region so soon after the end of the Gulf war was a "positive step". He said that with "boldness and vision" even the most intractable problems could be resolved.

The Palestine Liberation Organisation, meanwhile, has reportedly autborised senior Palestinians in the Israeli-occupied territories to meet Mr Baker on his visit to Israel.

Mr Yasser Abed Rabbo, a member of the PLO's executive committee or cabinet, was quoted as saying in Amman yesterday that the organisation had "given instructions" for the meeting to take place. While the PLO was not planning to issue an "official decision," he said "any Palestinian who takes part in any political encounter with Baker will reflect the PLO's stand."

The PLO go-ahead, if confirmed in Tunis, would add a significant and unexpected dimension to Mr Baker's mission to the Middle East. Among likely candidates for a meeting with the US official is Mr Faisal Husseini, the leading Palestinian nationalist in the territories.

Mr Baker met King Fahd in Riyadh on Friday. He travelled to Kuwait on Saturday, where be was received by Sheikh Saad al-Abullah al-Sabah, the crown prince.

Killings raise Israeli tension on eve of Baker's visit

By Hugh Carnegy in Jerusalem

A PALESTINIAN stabbed to death four Israeli women in a Jewish suburb of Jerusalem yesterday oo the eve of a visit by Mr James Baker, the US secretary of state, to promote Arab-Israeli peace in the wake of the Gulf war.

The attack served as a grim symbol of tbe deptb of the divide whicb Mr Baker is urging the two sides to bridge. Shortly after the stabbings, a crowd of incensed Israelis gathered at the scene shouting "Death to Arabs" and "Baker go home". Police were mobilised to prevent revenge attacks on Arabs in the city.

Police said the lone Palestinian, a male nurse from the occupied Gaza Strip who was shot and detained, stabbed the women at a bus stop. He later told interrogators: "This is a message for Baker." The attack was similar to earlier incidents around Israel in which 12 people have died and which began after 18 Palestinians were shot dead by Israeli police in Jerusalem last October.

It occurred as the cabinet of Mr Yitzhak Shamir, the prime minister, was meeting to discuss Mr Baker's visit, the first he has made to Israel since becoming secretary of state.

The Palestine Liberation Organisation has "lost credibility" after siding with Saddam Hussein in the Gulf war, President George Bush said at the weekend.

In an interview with Arab journalists, he did not absolutely rule out contacts between Washington and the PLO, saying he believed "there are some good people" in the PLO. "But their leadership betrayed their friends and got in with the wrong side, and it's going to take some time. So I'm not in any rush to do that [hold talks] at all."

There is some apprehension within the government, led by the hardline Likud party, that Mr Baker will present a tough face. Washington wants Israel to yield territories occupied in 1967 in exchange for peace, a formula repeated by President George Bush last week.

But Mr Shamir, bolstered by widespread Israeli outrage at Palestinian support for Iraq during the Gulf crisis and incidents like yesterday's stabbings, has made clear be is not about to budge on his refusal to give up territory.

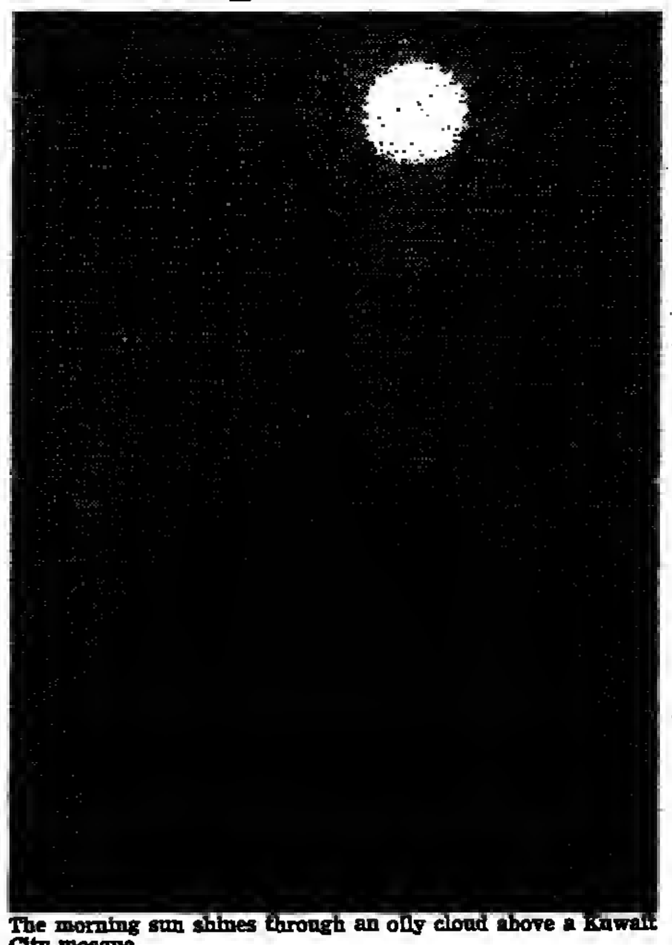
Instead, the cabinet yesterday endorsed the peace plan he put forward in May 1989, envisaging limited autonomy for Palestinians in the West Bank and Gaza. Ministers also said they reaffirmed the policy of not conceding the Golan Heights, captured from Syria in 1967 and an essential part of any settlement with Damascus.

Even the commitment to the May 1989 plan, which failed when Mr Shamir rejected attempts by Mr Baker to make it acceptable to the Palestinians, is opposed by several extreme right-wing ministers, notably Mr Ariel Sharon, the Likud housing minister.

Where Mr Shamir and Mr Baker will be closer in view is over the idea of separating out elements of a Middle East settlement onto parallel tracks. This way disarmament issues and bilateral ties between Israel and Arah countries could be detached, at least to some degree, from the Israeli-Palestinian problem.

The Israeli 1989 plan specifically calls for progress towards bilateral settlements with hostile Arab countries to run alongside a process of autonomy in the West Bank and Gaza.

Firefighters start work in oilfields this week



The morning sun shines through an oily cloud above a Kuwait City mosque

AMERICAN firefighting companies should begin work to extinguish more than 500 burning Kuwaiti oil wells on Friday, Mr Ahmad Murad, a manager of the Kuwait Oil Company, said yesterday, Victor Mallet writes from Kuwait City.

Kuwaiti officials say that transport aircraft, including US military C-5 Galaxies, will start bringing in some of the necessary equipment tomorrow.

Kuwait is giving a high priority to extinguishing the oil well fires started by the Iraqis, because it wants to begin producing small quantities of fuel for power stations and to lessen the disastrous environmental effects of so much burning crude oil.

"The tentative plan is that this coming Friday we are going to embark on firefighting a number of wells," Mr Murad said.

Putting out all the fires could take more than a year, but Mr Murad said Kuwait should be able to produce 50,000 barrels a day from 30-40 undamaged wells in the Magwa area of the Greater Burgan field within the next two months. Some flow lines will be rerouted to bring the oil to a gathering centre.

The oil will be used for power stations which can burn crude. Later, production will be increased to 100,000 b/d, to supply refineries which can then make petrol for local consumption.

Kuwaiti refineries are only partially damaged. Mr Rashid al-Ameeri, oil minister, said at the Mina Abdullah refinery on Saturday that studies were being made to see if it was possible to cobble together some sort of refining process by using undamaged units in the country's three refineries. They are linked by pipelines.

"Since our oil wells are on fire the refineries are not a priority," he said. "The first priority is to take care of the wells."

At Mina Abdullah, a recently modernised 280,000 b/d refinery, both the pump station and the central control room were destroyed by the Iraqis, paralysing the plant.

Asked about Kuwait's role in the Organisation of Petroleum Exporting Countries (Opec) now that Kuwait was not exporting oil, Mr al-Ameeri said Kuwait would ask its Gulf allies to produce on its behalf as a sort of long-term loan to be repaid out of future Kuwaiti oil revenues. He also said Kuwait would insist on reparations from Iraq.

"We will keep our [Opec] quota as it is and we will ask the other Gulf states to produce on our behalf so that we can at least keep the country going," he said.

Kuwaiti estimates of the oil being burned off in uncontrolled well-head fires range from 4m to 6m barrels a day, more than double the pre-invasion output, and Mr al-Ameeri said the country was losing $200,000 a minute.

As he spoke a swallow flittered hopelessly around the sabotaged control room, apparently unable to fly properly because of the oil droplets falling from the sky on to its wings. The plight of the bird, and the bitter cold, were further indications of the damage to the environment caused by Iraq's campaign of sabotage.

Yesterday Mr Sami Yacoub, a Kuwaiti environmental expert, said the average temperature in Kuwait was 10 degrees centigrade below normal because of the smoke covering the land. The sea, the air and the earth were being polluted.

"You are exposed to oil pollution by drinking water, eating fish and breathing air," he said. Mr Yacoub said he would recommend that people living around the oilfields in the south of the country wear face masks. Already there had been cases of eye, nose and throat irritation from the smoke, and in the long term the pollution could cause cancer.

Mr al-Ameeri said the world had never before seen even three burning oil wells in the same place at the same time, let alone 500. "I wouldn't call it a crisis," he said. "I would call it a catastrophe."

Kuwaitis ponder how best to borrow

They may be more hard-pressed than they say, **Stephen Fidler** and **David Owen** write

KUWAIT'S expected move to borrow abroad to fund its reconstruction has sparked a debate among both Kuwaiti government officials and potential lenders about the best approach to raising money.

It has also posed questions about the rationale behind the emirate's initiative and the size of the foreign assets still in its hands. Before the Iraqi invasion, Kuwait had more than $100bn (£52bn) of foreign assets and investments, by some estimates – or at least $60,000 for each member of its then 1.7m population.

Senior Kuwaiti officials said last week that the authorities were expected to agree to approach international banks for $20bn and that J.P. Morgan, the New York bank, would probably take a leading role in arranging the finance. It was not clear over what period the funds would be needed.

Kuwaiti officials have indicated that the state had no pressing need to borrow but intended to do so partly as a gambit to avoid showing the full extent of its wealth.

The government has also indicated that it does not want any big liquidation of assets. This is both because of the likely effect of such sales on the markets and because it expects those assets to appreciate faster than the rate of interest, making it advantageous to borrow against them rather than sell them.

Other authoritative parties believe the Kuwaitis may be more hard-pressed than they are letting on. They say assets are over-estimated at $100bn and available resources are much smaller. Kuwait Petroleum Corporation, for example, is valued at $15bn and its assets outside Kuwait are often double-counted. Other big strategic and long-term holdings will not be sold. Large sums have been pledged to overseas governments, such as the US, to finance the war effort.

The result, they say, is that Kuwait has significantly less than $50bn in realisable assets.

A few publicly disclosable assets are known to have been sold in recent months. The Kuwait Investment Office's 21.5 per cent holding in Dewey Warren, the mortgage company, was disposed of in September. A 10.1 per cent stake in Mount Charlotte Investments has also been offloaded. So was Ertoil, a unit of Ercros, Spain's largest chemicals producer, whose main shareholder is controlled by the KIO.

Using the state's assets as security against which to borrow would lower the rate of interest charged compared with a traditional unsecured loan, and make banks more comfortable about lending larger sums to a politically uncertain region.

However, some Kuwaitis and others regard such an approach as misguided. They say it would be expensive, would tie up assets that would otherwise provide the country with a useful cushion, and would stop banks lending unsecured funds. It would also crowd out private-sector Kuwaiti borrowers (as well as non-Kuwaiti borrowers) from the international markets.

According to Kuwaiti officials and bankers, these are the other options:

- Borrow unsecured from banks – the traditional approach for sovereign borrowers: Saudi Arabia is raising $3.5bn in this way. But the amount that could be raised is limited, as banks' appetite for unsecured lending has shrunk with their capital constraints, and in the words of one financier Kuwait "would have to pay an outrageous risk premium."
- Borrow against future oil deliveries. The fact that Kuwait is not now producing significant quantities of oil would present no difficulties. Kuwait could raise traditional project finance for its oil business from banks. It is talking to banks about this and other project finance ideas. It could also arrange oil swaps with friendly governments.
- Get help from industrialised governments. This could be provided through export credits, which would usually be tied to contracts. There are suggestions that the Japanese government may be willing to provide untied credits. International Monetary Fund loans are a theoretical possibility, although its short-term lending may not be ideal for long-term reconstruction. The idea of a new Middle East reconstruction bank, floated by US secretary of state James Baker, has not been enthusiastically received by other governments.

There are other ways in which friendly governments could help. There are precedents, for example, in US dollar bond issues for Israel carrying a 90 per cent US government guarantee. But the the US and other governments have their own budget deficits to worry about and Kuwait is relatively wealthy.

Governments are to discuss the reconstruction at a meeting in Luxembourg today. However, little help will be forthcoming until the emir has returned to Kuwait and the political situation has crystallised.

The ruling al-Sabah family is under pressure from both the west and the fractious domestic opposition to restore at least a modicum of democracy to the country.

- More innovative financing options exist. Bonds could be issued exchangeable into Kuwaiti shareholdings: a cash option would allow the holdings to be preserved.

But according to bankers who have talked to the Kuwaitis, their preference is for simplicity. Whether they will be able to keep it simple depends crucially on how much they need. The more money they need and the faster they need it, the more sources of finance they will have to tap.

Estimates of between twenty and several hundred billion dollars have been made for the reconstruction. But the Kuwaitis have current needs too – estimated in some quarters as $12bn-$15bn in the first year alone – and it is likely to be some time before they receive oil revenues.

Negative pledges, Page 21

LARGE DISCLOSABLE KUWAITI STAKES IN FOREIGN COMPANIES

Company	% shares held	Market value (£m)
BP	9.8	1,513
Midland Bank	10.2	157
Daimler-Benz	14	1,475
Hoechst	20	992
Metallgesellschaft	20	218

Tough Saudi stand in Opec

MINISTERS from the Organisation of Petroleum Exporting Countries (Opec) got a taste yesterday of the uncompromising stand they can expect from Saudi Arabia when talks open today about production cuts to support petroleum prices in an over-supplied world market, Reuter reports from Geneva.

Faced with a national bill of about $50bn (£26bn) for the Gulf war, the Saudi side seems set to dig in its heels.

"We are no longer interested in having 12 other Opec members decide on what volume Saudi Arabia should produce," the Middle East Economic Survey (MEES), a Nicosia-based newsletter, quoted a Saudi oil official as saying.

Saudi Arabia would reject Opec pressure to cut output substantially to restore the prices to $21 a barrel, it said in its Monday edition.

The newsletter added that, according to formulas put forward at a meeting of six non-Gulf Opec oil producers in Vienna last week, Saudi Arabia would be asked to cut output by up to 15 per cent from its present level of about 8.3m barrels a day (b/d).

It quoted the unidentified Saudi source as saying such proposals were unacceptable.

Saudi Arabia opened the taps to compensate for more than 4m b/d of lost Kuwaiti and Iraqi production shortly after Iraq invaded Kuwait on August 2.

The Saudi official told MEES that Opec could not expect Saudi Arabia to go back to its pre-crisis quota of 5.38m b/d and a reference price of $21 per barrel. "The circumstances prevailing before August 2 1990, are no longer valid," he was quoted as saying.

Today's meeting is Opec's first since the Gulf war ended and it could result in the reintroduction of output quotas suspended when the Gulf crisis began last August. Six oil ministers favour cuts in Opec's collective output from around 23m b/d.

More assertive Saudi Arabia, Page 17

Desert Rats begin pullout from Kuwait

By Michael Field in Kuwait City

THE first British troops began pulling out of Kuwait yesterday. The Royal Scots Dragoon Guards, one of the regiments in the 7th Armoured Brigade, were flown by C-130 Hercules transports from a desert airstrip to the Saudi port of Jubail. There they will spend three or four days "de-kitting" before they are flown back to Germany. The brigade's tanks and artillery, which will be shipped home, have been moving down to Jubail by truck for nearly a week.

It is intended that all of 7th Armoured Brigade, known as the Desert Rats, will be out of the Gulf by March 18, with each unit being moved over a six-day period.

In advancing 302km eastwards across Iraqi and Kuwaiti territory, the brigade lost three men killed and 15 wounded, as well as two Spartan command vehicles. None of its Challenger tanks was badly damaged, although one had three Iraqi shells bounce off it, and none of its Warrior armoured personnel carriers was lost. Commanders estimate they destroyed 90 Iraqi tanks and 60 other armoured vehicles.

The 7th Armoured Brigade is being brought home first because it was the first unit to be deployed in Saudi Arabia. The other big unit making up the British 1st Armoured Division, the 4th Armoured Brigade, is expected to follow in the second half of this month and the first few days of April.

Beirut sees biggest meeting of Iraqi opposition leaders

Rebels to step up anti-Saddam fight

IRAQI opposition leaders said yesterday they intended to escalate the uprising against President Saddam Hussein and were laying plans for a coalition government to take his place, Reuter reports from Beirut.

More than 250 delegates from 30 opposition groups have gathered in Beirut for the largest ever anti-Saddam conference.

As they prepared for today's opening session, delegates were at pains to stress that although differing in aspirations, ideology and religion they are united by a common hatred of President Saddam.

Rebels have been fighting his forces since US-led allied forces defeated the Iraqi army 10 days ago. Opposition groups say rebels hold 29 cities and hundreds of towns and villages from the Kurdish north to the Shia south.

In London, a spokesman for the Iraqi Kurdistan Front said Kurdish rebels had captured several towns around the oil centre of Kirkuk in northern Iraq and were poised to take the city.

Rafsanjani: 'Submit to the will of the people'

Conference spokesmen told Reuters that delegates would debate a programme of action drafted by the Iraqi National Joint Action Committee (INJAC), a coalition of 17 groups which called the meeting.

"The plan includes measures to ensure establishment of a solid base to escalate the uprising and a political plan for the post-Saddam era in Iraq," said Mr Abu Maitham al-Saghir.

Another spokesman, Mr Abdul Khaleq Zinkneh, said the draft included proposals for a temporary coalition government to represent the various opposition factions once Mr Saddam is ousted.

"The plan says the proposed government will rule for a year after which free and general elections will be held and only the Iraqi people will design the new regime in Baghdad," he added.

Conference sources said the draft says local committees would be formed in "liberated" areas of Iraq "to support and fuel the uprising as well as to organise everyday matters."

The groups include Shia and Sunni Moslem fundamentalists, Kurds, communists, nationalists, dissidents from the ruling Baath party, former army officers and pro-western liberals. They are based in Iran, Syria, Britain and Saudi Arabia.

Apparently fearing the revolt would be dubbed an Islamic revolution by the west, delegates stressed that the fighting in Iraq was a popular revolution against Mr Saddam and that only democracy would decide the future of the country.

Iranian President Ali Akbar Hashemi Rafsanjani yesterday repeated a call for the Baghdad government and rebel groups to make a deal to head off all-out civil war inside Iraq, Tehran radio said.

Mr Rafsanjani urged the Iraqi leadership to submit to the will of the people, saying suppression of the rebellion would be its "biggest and last mistake".

He also suggested the Iraqi opposition consider co-operating with the ruling Ba'ath Party to save their country from ruin.

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'Communist rulers' use of force robs them of any legitimacy

Myth of Serbian unity broken

By **Judy Dempsey** in London and **Laura Silber** in Belgrade

ONE of the last bastions of communism in eastern Europe is under threat. But unlike the peaceful revolutions which toppled communists from power in 1989, Serbia's communists are determined to use force to remain at the helm.

This is the underlying message Mr Slohodan Milosevic, Serbia's communist president, delivered to Serbs at the weekend. Despite promises that he would never use force against his fellow Serbs, he has clearly demonstrated his determination to quash any opposition.

But it is only a question of time before the anti-communist opposition breaks his stranglehold over Serbia's economic, political and cultural life.

At first it was an exciting prospect for many Serbs to have a nationalist leader who would make them proud again. That pride was dented under the late President Tito, who was determined to contain Serbia's influence throughout the Yugoslav federation.

Tito achieved this by carving out of Serbia two autonomous provinces – Vojvodina in the north and Kosovo in the sonth. Serbs never forgave him for robbing them of Kosovo; in Serbian history the province is regarded as the cradle of Serbian culture.

By exploiting this sense of loss Mr Milosevic won enormous support, which enabled him to be catapulted on to the political scene in 1987.

One of his first acts was to purge the Serbian media of any dissenting voices; journalists were sacked to be replaced by Mr Milosevic's supporters.

He then broadened his support by promising Serbs that he would do away with corruption and re-integrate into Seriba the provinces of Kosovo and Vojvodina. He achieved the latter by organising in 1988 mass nationalist demonstrations throughout Serbia.

The weak federal government and the republics stood by. They believed that once the two provinces had been integrated – regardless of the bloodshed in Kosovo – Mr Milosevic would be cootent. They miscalculated.

As the communist regimes throughout the republics ceded power to democratically-elected governments last year, Mr Milosevic feared that Serbia's communists (renamed the Socialist party) might be voted out of office.

Again he used the nationalist card. By attempting to impose an economic blockade against the tiny republic of Slovenia, by fomenting nnrest among the Serb minority In Croatia with the aim of gaining more territory for Serbia, and by discrediting the weak opposition in the tightly-controlled media, he ensured success for the communists. But it was a pyrrhic victory.

As Mr Milosevic encouraged ethnic unrest in the nelghbouring republics, bis failore to introduce economic reforms and improve the living standards of Serbs became increasingly evident.

Some workers bave not been paid for three months. There was sharp criticism from the other republics when Mr Milosevic illegally printed money to subsidise the republic's loss-making industry.

Moreover, the Serbian media, firmly under the control of the communists, poured out a relentless diet of propaganda against Croatia, Slovenia and the Serbian anti-communist opposition. A combination of these factors forced tens of thousands of people on to the streets of Belgrade at the weekend. The myth of Serbian unity was broken.

The question is what happens now.

By using force against his fellow Serbs, Mr Milosevic and his communists have lost all legitimacy. By banning all independent comment on the radio and television, Mr Milosevic has shown he does not believe in the democratic process. By propping up the Serbian economy witb printed money, the communists have disowned the workers. But what saddens many liberal-minded Serbs is that Mr Milosevic has set Serb against Serb.

The effect may be cathartic. It could force the collective presideocy, whicb is made up of the eight presidents of the republics and provinces, into finally deciding on the kind of political and economic structures they want to create for Yugoslavia.

The presidency is deeply divided on this issue. Croatia, Slovenia, Bosnia-Hercegovina and Macedonia want a confederation which envisages the devolution of wide powers to the republics. Serbia and Montenegro want a federal structure.

Mr Milosevic might have been able to persuade Serbs that his model was possible. But because he deprived the opposition parties of a say in the republic's political agenda he has now lost support for his federation.

He has few options left to keep the communists in power. In the short term he can rely on the armed forces. But this is counter-productive and will be criticised by the west.

In the meantime the opposition have found its voice. And if Mr Milosevic refuses to allow this to be heard in the media and the political agenda be risks plunging Serbia – and Yugoslavia – into civil war.

Serbians clash with police in Belgrade at the weekend after demonstrators were dispersed by teargas and water cannon

Albania declares military zone to stop refugees

By **Judy Dempsey** in London and **John Wyles** in Rome

ALBANIA'S ruling communists have declared the port of Durres a military zone after 15,000 people seized ships last week and crossed into Italy.

The move was announced after the Italian government said it would send back thousands of Albanians who have sought refuge in Italy over the past 10 days. Mr Giulio Andreotti, the Italian premier, said the Albanians were economic, and not political, refugees.

The government plans to disperse the refugees in military camps around the country over the next few days, before screening them to determine who qualifies for political asylum.

Mr Andreotti proposed that Italian families should "adopt" refugees and take them into their homes.

He offered to be the first to do so.

"On the one hand there is a human situation which cannot be ignored when we are faced with these poor people," he said yesterday on Italian radio.

"But if we set a precedent that anyone can come here, erroneously thinking they can find a house and job, we would be faced with a massive influx not only from Albania but also from other countries, which unfortunately we cannot afford."

Members of Albania's independent opposition said two people had been killed and several injured after police and army moved into Durres at the weekend.

Despite the appalling conditions for the refugees in the Italian port of Brindisi, a member of Albania's opposition said yesterday he believed people would still try to cross the Straits of Otranto to Italy. But relief workers in Brindisi say some Albanians want to return because of the squalor.

Mr Gramoz Pashko, a leader of the Democratic party, said about 2,000 would-be emigrants were still on board two boats in Shengjin in northern Albania.

For more than a week the Albanian authorities did little to prevent people from leaving the country. An Albanian journalist said Mr Ramiz Alia, head of the ruling Albanian (communist) Party of Labour (APL), might have expected the Italian government to welcome the refugees.

But Albania's passive attitude could also signal the APL's wish to see thousands of anti-communists leave the country before the country's first free elections, scheduled for March 31.

Yesterday the Italian government started moving to other parts of the country more than 1,000 of the 15,000 Albanian refugees who had been packed into Brindisi.

This followed criticism from the public and from Pope John Paul II of the Italian government's slow response to the influx of refugees.

Italians have been shocked by television pictures of thousands of refugees, many of them young women and couples with infants who have spent several nights sleeping under plastic blankets on the dockside.

Meanwhile, the UN High Commission for Refugees has appealed to Italy to let the Albanians stay as a prelude to dispersing them around the world.

The European Commission yesterday agreed to give Albania Ecu1m (£700,000) in emergency aid.

Polish MPs reject Walesa request for early elections

By **Christopher Bobinski** in Warsaw

POLAND's parliament voted at the weekend to hold elections in the autumn, despite a request from President Lech Walesa for them to be held by May 26.

Poland is the only country in the post-communist bloc not to have held free parliamentary elections. The present deputies were chosen in June 1989 under a contract between the then government and Solidarity opposition, leaving a majority in communist hands.

Continuing controversy over the electoral law, which has yet to be accepted, means a spring election was not practical, despite the president's insistence. There is no prospect of a summer poll as Pope John Paul II is due in Poland in June and the holiday season falls in July and August.

President Walesa contributed to the delay when he asked parliament last week to accept his version of an electoral law which differs substantially from the compromise worked out inside the chamber.

The differences between the two versions centre on the mix between a proportional representation system and a first-past-the-post system. President Walesa favours a law which would increase prospects for the larger organised groups, like Solidarity.

Parliament, in contrast, wants greater proportionality aimed at boosting the electoral prospects of the smaller new parties, as well as the Social Democracy of the Republic of Poland party (SDRP), the post-communist party.

INTERNATIONAL NEWS

US warned over further delay on Gatt progress

By Peter Montagnon, World Trade Editor

EUROPE'S trading partners may have more to lose than gain by delaying the Uruguay Round's conclusion in the hope of achieving extra concessions on farm subsidies as a result of Common Agricultural Policy (CAP) reform, Mr Roderick Abbott, a senior EC official, has said.

The US tended to believe there was now an advantage in waiting for the internal discussions on CAP reform to be completed. "I believe quite strongly that this is a dangerously flawed view," Mr Abbott told the Royal Institute for International Affairs.

He said it could be detrimental to the internal European debate on reform. The feeling of being under external pressure would strengthen the determination of those in the EC who were opposed to fundamental agricultural reform.

CAP reform discussions might last beyond the end of this year, but the Round needed to be concluded by then if passage of the implementing legislation was not to get entangled in the 1992 US presidential election campaign, he added.

Waiting beyond the end of the presidential campaign was also not an option as the first six months of a new US administration was a difficult time to lay a complicated piece of legislation before Congress.

Mr Abbott said the US had frequently used the excuse of political pressure in Congress *as grounds for refusing* to make concessions in other areas of the Uruguay Round. It should acknowledge, by the same token, that farming was "e very difficult political issue" in Europe.

If Washington pushed too hard on agriculture it would be difficult for the European Commission to win the approval of member states for any final package, especially since the EC was unhappy with the US position in other areas.

It had made no offers to cut its high tariffs on textiles and its refusal to adopt a formula approach to the overall negotiation of tariff reductions meant a risk of "quite substantially" undershooting the Uruguay Round target of 33 per cent.

If the US persisted with its reluctance to agree to non-discrimination against foreign suppliers in the service sector and its insistence on imposing its "first-to-invent" rule for granting patent protection, there would be "not the least chance in the world" that the developing countries would agree to the deal, Mr Abbott stressed.

Warning signals flash for the D-Mark

Germany's currency may be in for a bumpy ride, writes **David Marsh** in Bonn

GERMANY'S move into current account deficit in January may mark the beginning of a period of vulnerability for the German currency which could mirror, in some ways, the British experience of more than two decades ego.

The Bundesbank saw a particular lesson for Germany in Britain's predicament in the 1960s, when sterling's position es the world's No. 2 reserve currency (after the dollar) added greatly to the pound's instability, caused by successive UK current account deficits.

A fear that Germany could suffer a similar fate was ooe reason for the Bundesbank's former distaste for the idea of using the D-Mark as an international reserve currency.

Unless the January figure was a statistical freak, the DM1.2bn (£410m) shortfall appears to mark a return to the pattern of 1979-81, when the federal republic's curreot eccount lurched into the red.

Mr Theo Waigel, German finance minister, said on Fridey he did not believe the deficit would be repeated in *coming months. Even so,* it is likely that the surge in imports caused by German unification, along with weakness in important export markets, is melting Germany's traditional surplus much *more quickly* than expected. A senior finance ministry official said several weeks ago he expected the surplus, which was DM72bn last year, to vanish by the end of 1991. Paribas, the French bank, said in a report at the weekend it expected a current account deficit of DM10bn for the whole of this year.

Given the acute financial strains in post-unity Germany, the result will probably be that the Bundesbank will keep interest rates *higher than* necessary for purely domestic reasons. If the D-Mark comes under pressure, however, Germany's partners in the European Monetary System will have much more room to cut their own interest rates than was foreseen even a few weeks ago.

The vanishing German surplus may be uncomfortable for Bonn, but it could create more economic convergence in the European monetary system.

The Bundesbank has been warning for months that the sizeable increase in international *holdings of the* D-Mark increased the currency's exposure to adverse capital movements. Because of the risk of international operators moving out of the D-Mark, the extension of *the currency's* reserve role compounds the need for the central bank to run an unambiguous "hard money" policy.

Germany's sizeable budget deficit – even though prevented from getting out of control by the recently-decided tax increases – and the prospect of a pick-up in inflation this year ensure that the Bundesbank will remain vigilant.

Its opposition to development of the D-Mark's *reserve role* ended when Mr Otmar Emminger left office as president at the end of 1979 and was succeeded by the more pragmatic Mr Karl Otto Pöhl. Since then, D-Mark holdings of foreign central banks have roughly quadrupled to more than DM230bn, making up more than 20 per cent of world currency reserves.

One reason has been *the growth of* the D-Mark's "anchor" function in the EMS. Along with that of the US, now one of the biggest world reserve holders, the Spanish, Italian and British central banks are all now significant owners of D-Mark reserves. Most such reserves are held on the Euromarket, rather than with the Bundesbank.

The central bank has even been considering *offering* new short-term federal debt instruments for foreign D-Mark holders so as to give foreign central banks a wider choice of investment vehicles.

Total international holdings of the D-Mark come to well over DM800bn, with overall foreign holdings of all types of German public sector debt now more than DM200bn. If foreign holders decide that current account developments make the D-Mark a less secure bet, then the only way to retain currency credibility will be through an interest rate premium on the D-Mark.

Quebec party takes hard line on nationalism

By Robert Gibbens in Montreal

THE QUEBEC Liberal Party, despite last-minute efforts by Premier Robert Bourassa, has adopted the highly nationalistic Allaire Report urging sweeping new powers for the province and e referendum on sovereignty by late-1992.

The nationalists gained firm control of tha weekend party convention in Montreal and a big majority of the 2,500 delegates voted for Allaire. Federalist ettempts to water down some of its extreme recommendations were rejected.

The vote deepens divisions *among the ruling* Quebec Liberals. Mr Clande Ryan, a strong federalist and senior member of *Mr* Bourassa's cabinet, walked ont saying he was disappointed and will "weigh his options," raising speculation he may resign. The party also adopted a proposal to guarantee English-speaking Quebecers' traditional rights, especially in culture and social services.

The vote will strengthen popular support for Quebec's political sovereignty, in economic association with the rest of Canada. Polls show a solid majority of French-speaking *Quebecers, nearly* 80 per cent of the province's population, would vote for sovereignty.

The Allaire Report represents a shopping list that would lead to full political autonomy for Quebec and was *partly intended to allow the* Quebec Liberals to steal the Opposition Party Quebecois's thunder for independence.

Quebec would get exclusive anthority over 22 jurisdictional areas now controlled entirely or partly by Ottawa, leaving *the federal* government with defence, customs and tariffs, currency, and the national debt and equalisation paymeots. Shared powers would continne in taxation, netive affairs, fisheries, foreign policy, transport, justice, immigretion and financial institutions.

Forestry plan likely to anger Australian environmentalists

By Kevin Brown in Sydney

AUSTRALIA'S Lahonr government appears to be heading for a damaging clash with its powerful allies in the environmental movement following a cabinet decision to give federal protection to large forestry projects.

Mr Bob Hawke, prime minister, will announce the decision tomorrow in a statement on industry policy which is also likely to antagonise other influential interest groups.

The statement was originally conceived by Senator John Button, industry minister, as a relstively modest *contribution* to the gradual opening of Australia's economy through deregulation and tariff reform.

But its scope has expanded dramatically since Mr Hawke took direct responsibility in an attempt, following a period of *falling popularity,* to demonstrate his control over Labour policy. His involvement triggered a concerted push by pro-development ministers, led by Mr Alan Griffiths, resources minister, for legislation to give forestry operations secure *access to resources.*

The pro-development case has been helped by the deteriorating domestic economy, which started to contract in mid-1990 and is unlikely to start growing again before the second half of this year.

Mr Griffiths also argued that encouraging the export-oriented forestry industry would help reduce Australia's current account deficit, running at an annual rate of A\$17.2bn (£7.05bn).

The immediate effect of the cabinet decision will be to facilitate projects such as a pulp mill planned for Tas*mania by a consortium led* by North Broken Hill Peko, the mining group.

However, the mining industry is likely to push for similar protection, especially in the light of recent moves to speed progress towards e settlement of aboriginal people's land claims.

Mr Hawke will try to convince the conservation movement that industry will be given secure access to resources only after compliance with stringent environ*mental regulations.*

But the decision has already been opposed by the left-wing faction of the federal Labour party, and by environmental groups such as the Wilderness Society and the Australian Conservation Foundation.

Mr Phillip Toyne, ACF director, said the government had caved in to blackmail from the *forestry industry, and warned* that Labour would lose Green snpport et the next general election.

Snch a loss would be a serious blow for Labour, which won the last election narrowly and is trailing in the opinion *polls.*

Mr Hawke's statement is also likely to include plans for further across-the-board tariff cuts when the current phased rednction, to a maximum of 15 per cent for most goods, is completed next year.

Special arrangements will be continued for the textile, clothing and footwear industries, but tariffs *will fall further* when the current target of 45 to 55 per cent is reached next year.

The other principal loser will be *the car industry, which is* already being hurt by cuts in tariffs from 100 per cent to a target of 35 per cent next year.

Most of the five manufacturers have trimmed their workforces substantially but continne to rely on tariffs to compete with importers.

The cabinet is thonght to have accepted proposals for a *tariff reduction* to 15 per cent by 2000, hut the carmakers say the industry will disappear if protection is reduced by *more* than e few percentage points.

The industry view has strong support from tha Labour governments of Victo*ria and South Australia, which* host most of the car plants.

Argentina lines up $1bn IMF stand-by

By John Barham in Buenos Aires

ARGENTINA intends to sign a new $1bn stand-by loan with the International Monetary Fund in April, Mr Roque Fernández, central bank president, *said et the weekend.*

The country's previous stand-hy sgreement witb the *fund collapsed this year after* e heavy spending deficit in December had led to a run on eustral in January and to *27* per cent inflation in February.

Mr Fernáodez mede the statement accompanied by Mr Armendo Linde, chief of an *IMF mission,* in Buenos Aires. Mr the bank chief said the salient points of the new accord would include Argentina showing a $5bn trade surplus and a $4bn-equivalent primary budget surplus in 1991. In that case, $700m would be extended in IMF loans this year, the remaining $300m being disbursed in 1992.

The government further reiterated its commitment to maintaining $60m in token *monthly interest payments to* foreign commercial bank creditors. Last week, Mr Domingo Cavallo, economy minister, and Mr Guido di Tella, foreign minister, were both quoted as saying that Argentina would suspend all payments to commercial banks if the flow of new loans from international lending agencies did not increase. (Argentina resumed payments to commercial banks last June after a two-year moratorium.)

Both ministers later denied *that* Argentina would stop payments. However, economy ministry officials repeated that they would not bow to pressure from the creditor banks to raise payments to $100m per month. Argentina owes commercial banks $31bn and is more than $7.5bn in arrears on interest payments.

Mr Cavallo went on national *TV at the weekend to explain* in minute detail the Treasury revenue and spending figures, to calm fears of renewed inflation, devaluation and economic instability. He said the Treasury would show a budget surplus equivalent to $100m in April, before interest payments on the foreign debt. He put the March deficit at $144m.

The minister also announced an ambitious programme of conversion of domestic government debt into equity in privatised companies and the sale of certain government assets, estimated at $45bn.

N Korean delegation visits Japan

A DELEGATION from North Korea arrived in Tokyo yesterday for talks on opening diplomatic relations with Japan, a nation it long denounced as in league with "US imperialists," AP reports from Tokyo.

This would be the first North Korean government mission to *pay an official visit to Japan,* the North's official Korean Central News Agency said. Two days of talks were to begin today.

The North wants compensation for Japan's 1910-45 colonial rule over Korea, and in respect *of the* post-World War II period. Japan wants North Korea to open its nuclear facilities to international inspection.

The Korean peninsula was divided in 1945 at the end of World War II. Japan normalized relations with pro-Western South Korea in 1965.

Township toll

Police put the death toll in a bloody township clash between rival black South African factions at 28 yesterday after recovering more smashed corpses from a squalid squatter camp on Johannesburg's outskirts. Reuter reports from Johannesburg.

Large crowds of African National Congress (ANC) supporters milled around Alexandra township adjoining Johannesburg's exclusive northern suburbs, baying for revenge against the mainly Zulu residents of a workers' hostel.

"We want revenge. They have killed our people," one ANC supporter shouted near the perimeter of the hostel grounds, draped with razor wire to seal it from Alexandra's shanty areas.

Police and military armoured vehicles patrolled the township, stopping occasionally to recover victims of the latest eruption of black factional civil war.

Pakistan share sales

Pakistan's government is to reduce its control over industry and privatise the country's 150 public sector industries, writes Farhan Bokhari in Islamabad.

Mr Chaudhary Shujaat Hussain, the industries minister, said the share sales would take place within the next two years. The new policy would aim to attract private sector investments in an effort to boost Pakistan's economy, he added. Government controls over industrial expansion will be reduced under a new industrial policy to be unveiled later this month, which will also reduce regulatory restriction and encourage private sector investments. Many of Pakistan's public sector *companies* were forcefully taken under state control during the early *1970s* by the government of late Prime minister, Mr Zulfikar Ali Bhutto.

Meanwhile, the annual foreign economic trends report for Pakistan, prepared by the US embassy in Islamabad, says that 40 of the public sector companies would be sold by the end of this year.

Japan lends to Venezuela

By Joe Mann in Caracas

THE Export-Import Bank of *Japan has agreed to* lend the Veneznelan government the equivalent of $600m, via two credits to be matched by loans from the International Monetary Fund and the World Bank.

The loan agreements were signed in Caracas at the weekend by Mr Akira Aoki, vice-president of the Japanese bank, and Mr Roberto Pocaterra, Venezuelan finance minister.

The two loans – to be disbursed and repaid in yen – were formally granted to help Venezuela cover the cost of certain imports but, in effect, they will be used to replace international reserves Venezuela has used to guarantee foreign debt rescheduling.

Both loans ($300m each) are for 9½ years, carrying interest at the prime rate used by Japanese banks for loans of more than one year, less 0.2 per cent.

Including the new $600m, Japan's Ex-Im Bank has loaned the Venezuelan government $1.6bn in seven operations since 1987.

Salvador close vote likely

By Tim Coone in San Salvador

A CLOSE result is expected in El Salvador's *national congres*sional and local elections, held yesterday. The ruling Arena party was trying to maintain an absolute majority in the 84-seat Congress and the majority of local governments it controls.

Opinion polls indicated a modest swing to the main centre and left parties, the Christian Democrats and the Democratic Convergence, which could take control of Congress from Arena. Turn-out was low yesterday morning.

A three-day truce declared by the FMLN left-wing guerrillas took effect at the weekend, although heavy fighting had occurred in the northern prov*ince of Chalatenango on Satur*day as the army continued an offensive against the guerrillas.

Mr Peter Bottomley, MP, a British observer of the elections, witnessed some of the fighting. He said the army was "recklessly" lobbing mortar shells on to civilian areas where there were claimed to be guerrilla positions. Skirmishes were reported in six towns.

Doubts over witness in Papandreou trial

By Kerin Hope in Athens

THE long-awaited trial of Mr *Andreas Papandreou,* Greek former prime minister accused of corruption in office, is to start today amid doubts that the main prosecution witness will be available to testify.

Mr Papandreou, who is charged with breach of trust and accepting bribes following a parliamentary inquiry into a $200m bank embezzlement scandal, has said that he will not appear before the 13-member tribunal, nor appoint a lawyer to defend him.

He calls the proceedings a "political conspiracy" against his Pan-Hellenic Socialist Movement (Pasok), which fell *from power in 1989 after the* Bank of Crete scandal.

There is no legal obstacle to *holding* the trial *without* Mr Papandreou and his lawyers. Three senior Pasok members will unofficially monitor the proceedings on his behalf.

In the absence of the ex-prime minister, interest will focus on three former cabinet ministers also charged in the Bank of Crete affair: Mr Agamemnon Koutsogiorgas, the former deputy prime minister; Mr Dimitris Tsovolas, ex-finance minister, and Mr George Petsos, ex-industry minister.

The fourth, former economy minister Mr Panayotis Roumeliotis, is now an MEP. No decision has been taken yet on a *Greek request to lift his immu*nity from prosecution.

With 86 prosecution wit*nesses listed,* the trial is likely to last several months. But, according to legal analysts, the chances that Mr Papandreou will be convicted remain slim, unless the former owner of the Bank of Crete, Mr George Koskotas, can prove his allegations that several billion drachmas of embezzled money was delivered directly to the prime minister. Mr Koskotas claims he was blackmailed by Mr Papandreou into bankrolling Pasok in advance of the June 1989 election.

Mr Koskotas, last on the list of witnesses, is in jail in the US awaiting extradition to *Greece on fraud and embezzle*ment charges. His lawyers say he wants to testify in person, *but point out* that an early return to Athens would mean abandoning his appeal against extradition. His participation in the trial is by no means certain.

● Mr Harilaos Florakis, Greece's veteran communist leader, has resigned as chairman of the Left Alliance party and has proposed a young reformer as his successor, in a move that threatens to split the Greek left.

His choice, Mrs Maria Damanaki, 39, is a popular *communist MP opposed to the* hardliners who retained control of the Greek Communist party (KKE) at last month's party congress.

In search of harmony to cure Europe's ills

Clive Cookson examines efforts to standardise the Community's pharmaceuticals

CREATING a single market for many products is largely e matter of tearing down anomalous economic and technical obstacles. In pharmaceuticals, though, the task is being greatly complicated by deep-rooted differences in social ettitudes to medicine and by complex arguments about the safety of new drugs.

These are responsible for a *severely fragmented* market. Each country has e separate regulatory body, applying its own criteria for approving medicines, and mntual approval of licences is non-existent. Each country has a different system for pricing and paying for drugs. Other rules, for example about pharmacentical advertising, vary greatly across Europe.

In countries where pharmaceutical prices are subject to *strict government control* – such as Spain, France and Italy – drugs cost about half as much as in countries such as Germany and the Netherlands, where suppliers are relatively free to set the prices.

The UK, with its unique Pharmaceutical Price Regulation Scheme (PPRS), based on the principla of allowing suppliers to make *a reasonable* profit on drug sales to the National Health Service, comes somewhere between the high-price countries of northern Europe and the low-priced countries of the south.

Over the past 25 years, EC initiatives have made some progress in harmonising standards for drug licensing, says Dr John Griffin, director of the Association of the British *Pharmaceutical Industry,* but "there are significant differences to be faced before regulatory systems in Europe can he harmonised and unified in order to enable free circulation of medicines after 1992".

The differences cause more then bureaucratic inconvenience, according to the industry. Some countries still use *their national* licensing authorities to protect their own drug companies.

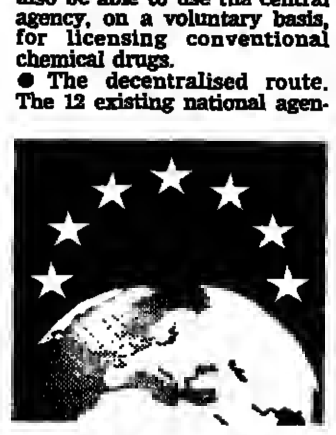
For example: Dr John Heap, medical director of Evans Medical, the UK vaccine manufacturer, says France has consistently refused to license vaccines from other countries, in order to leave the field clear for the three domestic manufacturers – all owned by the state-controlled Rhône-Poulenc group. His company has been *trying* without *success* for three years to sell its influenza vaccine in France, he says: "It's an immense frustration."

The European Commission is moving on several fronts to "bring the sector closer into line with the normal conditions of the internal market." A number of discussion documents and draft directives on *pharmaceuticals* is now circulating around Europe.

On the crucial issue of licensing, the Commission wants to set up a central European Medicines Agency by 1993. There would then be two routes for safety testing and approving new drugs.

● The centralised ronte. All products derived from biotechnology or made by biological methods, including vaccines, would have to be tested by the new agency. Companies would also be able to use tha central agency, on a voluntary basis, for licensing conventional chemical drugs.

● The decentralised route. The 12 existing national agencies would still be available to license conventional drugs. A company given approval in one country could then apply to *other member states to accept* this decision, on the principle of mutual recognition. If another country refused to accept the original decision, and the two national agencies concerned could not sort out the disagreement, it would be *resolved by binding arbitration* through the central agency.



THE EUROPEAN MARKET

The decentralised ronte would be a strengthened version of the voluntary system for "multi-state" drug applications which the EC has operated since 1986, through the European Committee for Proprietary Medical Products.

This has not worked wall because national regulatory agencies freqnently object to submissions *from other coun*tries – Italy, the Netherlands, Belgium, the UK and Germany *raised objections* to more than 85 per cent of the applications that reached them – and the system has been plagued by long delays. According to a recent EC report, one application had not been settled after almost four years.

Harmonising tbe licensing procedures will be complex and time-consuming, but is ultimately a *technical matter* which can be resolved by requiring scientists to reach a *compromise* between different safety standards.

Harmonising drug pricing and reimbursement – the mechanism by which the government pays doctors, pharmacists and hospitals for the medicines they have dispensed – will be far more difficult. It is a political issue that touches the very heart of social policy.

As a first step towards price harmonisation, the EC plans to make existing national systems "transparent". That means forcing governments to reveal all the criteria they use to control prices and to decide which drugs can be prescribed free or at *subsidised* rates under their national health insurance schemes. (Some pharmaceutical companies believe that the UK's PPRS is not transparent because the *Department* of Health sometimes uses *ad hoc* rules to assess certain costs.)

The Commission made clear, in a discussion document last *month, that it* wants eventually to go beyond transparency and achieve a common European drug pricing system. But it has not produced any specific proposals.

Nor have the European drug companies yet agreed on a *common position. They* naturally favonr a system which will leave them as free as possible to fix their own prices, with the minimum of interference from governments and the EC. They claim this would enable the Europe pharmaceutical industry to compete more effectively with US and Japanese manufacturers – pointing out that *countries with* relatively liberal pricing policies, such as the UK and Germany, *have better balances* on their pharmaceutical trade than the low-price countries of southern Europe.

There is some interest elsewhere in Europe in *controlling* prices indirectly through profits, as in the PPRS. According to Scrip, a pharmaceutical trade journal, French health officials have been looking closely at the UK system, though they were piqued by a British colleague's comment that it could work only under the "British sense of fair play."

Whatever happens, it will be well into the next century before all the regulatory barriers are removed and Europe can enjoy the full benefits of free trade in medicines.

INTERNATIONAL LEISURE GROUP

Administrator expects proposals on sale of Air Europe

A RACE against the clock has begun to try to get Air Europe flying again. This week a number of investors, including some existing shareholders of the airline's parent company, International Leisure Group, and a number of merchant banks are expected to submit proposals to the ILG administrators to acquire all or part of the airline.

Mr Tim Hayward of KPMG Peat Marwick McLintock, one of the joint administrators, indicated yesterday that he was more optimistic about securing the future of the airline business than ILG's extensive holiday tour operations.

"We are already talking to a number of potential purchasers," he confirmed, adding that Air Europe had valuable assets including scheduled air routes.

He also acknowledged that the administrators were "under extreme time pressure" to effect a sale as the value of the business was "diminishing daily".

The chances of salvaging the airline as an entity will now largely depend on the speed with which a credible rescue package can be put together. The alternative, as one airline industry executive said, is to see "bits and pieces of the Goodman airline empire picked up by the scavenging vultures and absorbed in their own operations".

The odds of a rescue of the airline succeeding were put at around 30 per cent to 40 per cent at best, although the more pessimistic industry analysts indicated that historically very few airlines in the same situation as Air Europe had managed to recover in the UK. This had been the case with British Eagle in the 1960s, Court Line in the 1970s, Laker in the 1980s and a number of small carriers in the past few years including British Island Airways, Novair and Paramount.

The most immediate problem for any rescue of Air Europe is to negotiate a deal with the various banking syndicates which have impounded most of the airline's 37-strong aircraft fleet. There is no way the airline can operate again without regaining its aircraft, of which as many as 34 were on lease.

The banking syndicates are likely to be anxious to see the aircraft they have repossessed flying again as soon as possible. The commercial aircraft market has come under pressure because of the slump in air travel, the recession and the financial difficulties of airlines. With increasing available aircraft capacity in the market, prices for second-hand aircraft have been dropping. But before releasing the aircraft, the syndicates would want not only to be guaranteed that any buyer would be fit to honour its leasing commitments but would also seek to recoup some of the money owed to them by Air Europe.

The other assets in the Air Europe portfolio are the route licences, take-off and landing rights at Gatwick and Manchester, as well as the airport terminal facilities such as lounges and check-in counters leased from the airport operators.

But air routes and landing slots are not tangible assets. Route licences are granted by the Civil Aviation Authority and they revert to the CAA if an airline is no longer fit to operate them. Any airline can then apply for those routes. Indeed, Dan-Air, the Gatwick-based rival of Air Europe, has applied for 10 of its competitors routes.

Other airlines are expected to seek Air Europe routes as well as landing slots, distributed by airport scheduling committees, if no suitable buyer for the airline emerges in the next few days.

The CAA will come under increasing pressure from airlines and travellers to re-allocate route licences to ensure continuity of air services on a number of Air Europe destinations. After the events of the past few days and the growing criticisms of its handling of the Air Europe crisis, the CAA is likely to adopt a more rigorous approach to the re-allocation of Air Europe licences. Another difficulty is that Air Europe is now unlikely to be able to recover a substantial proportion of its airline traffic derived from package tours. Much of this traffic, which has accounted for about two thirds of Air Europe passengers, is likely to go to other tour operators as will much of the forward scheduled service bookings.

But perhaps the biggest pressure of all is psychological. A crisis of confidence has shaken Air Europe. The longer it takes to mount a rescue attempt, the greater the damage on the credibility of Air Europe and the prospects of it rising successfully out of the ashes.

Paul Betts

Agents suggest protection fund for passengers

A PROTECTION fund for passengers on scheduled airline flights is being pnt forward by UK travel agents.

The proposal for a levy of £1 a flight on passengers – which would give scheduled air passengers the same sort of money-hack guarantee held hy charter airline holiday passengers – is part of the mounting pressure that Mr Malcolm Rifkind, transport secretary, and the Civil Aviation Authority will face this week after the collapse of the International Leisure Group last Friday.

Under current consumer-protection measures, all holidaymakere who booked an ILG holiday will get their money back or be ahle to book an alternative holiday.

Business and leisure travel passengers on scheduled Air Europe services will not get a refund, unlese they booked with a credit card (covered by the Consumer Credit Act).

The lack of protection for paseengers on schednled flights has long been recognised as a loophole in travel protection schemes.

"The major international airlines have a strong cartel which protects their prices and routes but they show little inclination to shoulder their responsibilities as well," Mr Nigel Robinson, managing director of Pickfords Business Travel, said yesterday.

Mr Robinson is chairman of the aviation committee of the Gnild of Business Travel Agents. Together with the Association of British Travel Agents, the guild is putting the £1 levy proposal to the government and CAA.

With 20m scheduled air passengers a year, the fund would establish a £20m reserve to recompense ticket-holders who are left holding tickets with failed airlines.

Opposition to euch consumer protection schemee comee mainly from the state-owned European airlines which argue that, because they are not in danger of going out of business, there is no need to support such a fund.

The political consequences of the ILG collapse may force the government to eupport the levy plan, or come up with alternative ideas to protect scheduled passengers – after Clarksons collapsed in 1974 the government was forced to introduce etronger bonding protection for charter passengers.

All companies which sell air travel abroad must have an Air Travel Organisers Licence, which is granted by the Civil Aviation Authority to those it deems financially safe.

The CAA also insists that any charter company that wants to sell overseas holidays which include charter flights must have a bond either with ABTA or the Tour Operators Study Gronp (TOSG). The group represents 19 of the largest tour operators, and they sell 90 per cent of package holidays.

Sunday trading: many travel agents, such as Pickfords in Chiswick, opened yesterday to help concerned customers sort out their holidays

ILG lodged a bond with the TOSG for £82.3m, about 10 per cent of its expected travel liabilities this year. In practice, no money changed hands: ILG negotiated the hond with a syndicate of banks, led by Lloyds Bank. Lloyds said yesterday its liability under the bond was for £10m.

Such bonds are rarely called in, but late on Friday night the TOSG decided it had to call in the bond after the CAA gave notice that it was suspending ILG'e charter licences from next Wednesday.

This gave TOSG administrators, working out of the Owners Abroad offices in Gatwick, the authority to authorise payments to bring stranded holidaymakers home.

The timing of the ILG collapse means that relatively few holidaymakers – about 25,000 – were abroad and needed to be brought home. Most the bond will be used to cover the deposits on the 400,000 holidays already booked by ILG customers for this summer.

David Churchill

Minister seeks to update DTI role

By Ralph Atkins

TRADE and industry ministers are to intensify efforts to clarify the department's role after a weekend "brainstorming" session focused on rethinking the way it helps industry and promotes innovation.

Mr Peter Lilley, trade and industry secretary, is anxious to update the DTI's presentation. He is expected to set out ideas on the department's role in a speech after Easter which will be followed by others on specific aspects of the DTI's responsibilities.

At the meeting the DTI's five ministers and senior officials discussed papers on innovation, the delivery of department services, and regional and competition policy. Conclusions are expected to emerge in the coming weeks.

The strategy meeting was given a deliberately low profile by the department. It was held at the home of Lord Hesketh, industry minister, in Easton Neston, Northants. Participants described the weekend as "very successful" and likely to be repeated.

Mr Lilley is regarded as among the strongest supporters of free-market policies among ministers, and is keen to avoid any policy that smacks of interventionism. Yet he wants to focus the DTI more on the promotion of innovation, particularly in smaller companies, where he believes market forces have failed. He wants Britain to set up more science parks, for example.

"What we've got to do is to bring industry and that science base together to get the commercial spin-off," Mr Lilley says in an interview with the Financial Times today.

Among ideas thought to have been discussed over the weekend was the possibility of setting up "one-stop shops" to allow businesses to take advice from a network of local DTI offices.

Mr Lilley is not expected to signal any substantial change in competition policy, except to reiterate his view that companies owned by governments should be subject to particular scrutiny during takeovers.

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Clarke sees most schools opting out

By Ralph Atkins

MORE than half of England's schools will have opted out of local-authority control by the end of the next parliament, Mr Kenneth Clarke, education secretary, predicted yesterday.

Mr Clarke said on BBC Television's Scrutiny that he would go on seeking ways to speed up the transfer of schools to grant-maintained status.

He acknowledged that opting out had started cautiously, amid "a lot of the rather hysterical campaigning", but said the process was "speeding up of its own volition".

Reaching his target – assuming the next parliament runs until the mid-1990s – would require considerable acceleration. Only 50 schools have taken grant-maintained status in England so far, with a further 12 schemes approved out of more than 23,000 primary and secondary schools.

FT SATELLITE MONITOR

More homes install BSkyB dishes

By Raymond Snoddy

THE UK satellite television market showed signs of recovery last month with a 41,000 increase in the number of homes receiving British Sky Broadcasting channels direct from space.

The February increase means that a total of 1.336m homes – 6 per cent of the UK total – now have satellite dishes, according to the latest FT Satellite Monitor. The 41,000 rise compares with what appeared to be a serious slowdown in January, when the Monitor – compiled for the FT hy Continental Research – found only a 17,000 increase.

These figures mean that in the past year the number of homes with satellite dishes has doubled in spite of the recession and the uncertainty created by the merger of British Satellite Broadcasting and Mr Rupert Murdoch's Sky Television to form BSkyB.

The overall market potential for satellite television – those who have already installed it and those who say they want to – has increased from 3.33m homes last February to 3.75m now.

As well as the increase in actual installations last month, there was a marked increase in enthusiasm for satellite television with 2.4m saying they will definitely or probably install a dish. In January, the figure was only 1.8m.

London and Scotland are emerging as strong markets for satellite broadcasting and the most enthusiastic purchasers remain skilled workers with young families.

Mr John Clemens, chairman of Continental Research, noted yesterday that the February upturn came before BSkyB began substantial promotion.

The FT Monitor is based on interviews with a weighted sample of over 4,000 people.

Output of footwear down 5%

By Alice Rawsthorn

NEARLY 2,500 jobs were lost in the footwear industry last year as the industry struggled against a deepening recession, according to the British Footwear Manufacturers Federation.

The latest BFMF statistics show that the level of employment in the industry fell by 5 per cent to 44,500 hy the end of 1990. Meanwhile, the industry's output fell by 5 per cent in volume terms to 121m pairs of shoes worth £1.1bn.

The footwear industry, which is concentrated in the traditional shoe-making towns of the east Midlands and the north-west, has been struggling for nearly three years and was one of the first in the manufacturing sector to slide into recession.

The industry's problems are rooted in the pressures of the strong pound, which has accelerated the influx of imported footwear from Asian countries where currencies are linked to the US dollar, and the impact of high interest rates.

Imports of footwear have posed a serious theat to the stability of the UK industry for the past three years. Imports rose by 18 per cent to 209m pairs worth £1.1bn in 1990. This means the level of penetration rose to nearly 70 per cent during the year.

Exporters support Dutch bidder for ECGD unit

By Peter Montagnon, World Trade Editor

UK EXPORTERS are backing NCM, the Dntch credit insurance company, as the preferred foreign buyer of the Export Credits Guarantee Department's short-term commercial risk insurance division.

NCM, a private company owned mainly by Dutch banks and insurance companies, is keen to expand out of its relatively small home market. The British Exporters' Association and the Institute of Export confirmed their sopport for NCM at a meeting in London last week attended by Mr Harry Groen, NCM president, and executives of five banks.

Their endorsement should boost NCM's chances against the two other foreign contenders, Assicurazioni Generali of Italy and Cobac of Belgium, and against Trade Indemnity, the insurance company which is the leading Britisb contender. Navertheless, Mr Campbell Dunford, association chairman, said exporters would still prefer the eventual buyer to be British.

Last week Trade Indemnity declared a £29m loss and acknowledged that it bad underestimated tbe rate at which companies would go bankrupt in the recession.

The ECGD's short-term insuranca division, which is due to be privatised this summer, faced a rise of 31 per cent in net claims during the six months to September 30 last year.

Figures issued to ECGD staff and MPs show that claims paid on business affected by tha forthcoming privatisation rose to £15.5m in the six months compared with £11.8m in the corresponding period of 1989. Some of the division's business – ontstanding insurance on Nigeria, for example – is being kept within the government.

A commentary accompanying tbe figures said other credit insurers faced a rise in private-buyer claims and that the rise was expected to continue increasing into the second half of this year.

The figures, compiled by Coopers & Lyhrand Deloitte, the accountancy firm, are an edited version of information sent to the six shortlisted bidders for the ECGD division.

CBI will form team to monitor overdue bills

By Charles Batchelor

THE CONFEDERATION of British Industry plans to form a working party on late payment of bills following publication of a study showing that late payment threatened the survival of 20 per cent of small firms.

Pressure has been growing for a change in the law to strengthen the hand of small businesses by, for example, allowing them the right to charge intarest on overdne payments. Nevertheless, the CBI favours a voluntary solution.

Mr Tom O'Connor, chairman of the Smaller Firms Council of the CBI, said tbe council wanted belp from banks, accountants and large companies to see how payment of bills could be speeded up.

Mr O'Connor said a significant minority of CBI members felt that legislation was the only remaining option. "It has to be recognised that legislative pressures, inclnding those from Brussels, are growing," Mr O'Connor explained. "This strengthens the need fully to explore voluntary solutions to tbe problem."

The council had not snpported attampts to introduce lagislation, but mambers had been surprised by the results of the survey published in January.

Another task for the council this year is to review the effect of the tax system on small firms to ensure that capital and corporation taxes do not place them at a competitive disadvantage as the single European market opens up.

It also plans to work with Training and Enterprise Councils (Tecs) to develop training programmes for the owner-managers of small businesses.

It will also review the hurden of statutory audits on small firms and stndy alternative ways of providing financial information.

The council also intends to monitor UK and EC legislation to ensure that it does not impose unacceptable burdens on small firms.

The council said that in spite of small businesses' difficulties, "there is still underlying evidence of their resilience and their ability to exploit niche markets and adapt quickly to market conditions".

BBC is given right-wing endorsement

By Raymond Snoddy

TWO STUDIES publisbed today hy think-tanks with right of centre views give a remarkable degree of support to tha idea that the BBC should survive largely in its present form, still funded by licence fees.

The reports, published by the Centre for Policy Studies and the Tory Reform Group, are in marked contrast to recent attacks on the BBC by some Conservative MPs.

The TRG paper, written by Mr Stephen Milligan, criticises tha BBC for occasional sloppy reporting, but says it is not biased against the Tories. The paper says the BBC should not be privatised when its Royal Charter comes up for renewal in 1996, and that the licence fee should not be replaced by advertising.

Mr Damian Green of the CPS says Radio 1 and Radio 2 should be privatised, and that BBC local radio should be abolished.

What Shall We Do About The BBC? Tory Reform Group, Sheraton House, Castle Park, Cambridge CB3 0AX. £5. A Better BBC. CPS, 8 Wilfred St, London SW1E 6PL. £5.95.

Little scope for Lamont to help the poor

Groups lobbying for the low-paid may be disappointed, says Rachel Johnson

LAST YEAR'S Budget was billed as a Budget for savers. Will this month's Treasury production be trumpeted as a Budget for the poor?

In his first 100 days as prime minister, Mr John Major, the architect of last year's Budget, has proved himself to be as socially "wet" as he is economically "dry". Ha has played the part of the caring Conservative while sticking to monetary policies that are almost as tough as those he championed as chancellor.

If this was to be Mr Major's second Budget, the City would probably be expecting him to deploy taxation and benefit systems that would foster his vision of en opportunity society "at ease with itself".

That might be the instinct of a former minister of state for social security, and a politician who, as chancellor, once said there were millions of people paying tax who ought not to pay tax.

But this is not Mr Major's second Budget; it is Mr Norman Lamont's first, and the City has very little idea about what makes the new chancellor's Sbetland brain tick behind his luxuriant eyebrows.

Mr Lamont is known primarily for conducting a stingy public-spending round in his previous incarnation as chief secretary to the Treasury. As chancellor he has not shown any fondness for expansive gestures, cutting base rates by just a half a percentage point on two occasions.

So, althongh the Tories would like to make their mark as "caring", this government is unlikely to launch a hudget targeted at a group specifically labelled "the poor". The Tories hava long argued that low-income groups benefited from the enterprise culture of the Thatcher decade – that high growth lifted the income of the poor via the "trickle-down effect". Mr Lamont is thus more likely to portray this Budget as a package of "incentives for the low-paid".

It is now widely accepted that the burden of taxation has risen by 13 per cent since 1979. Many commentators have also challenged the government's claims that the poor have benefited from the general economic growth of the 1980s.

Deprived area: claims that the poor have benefited from economic growth in the 1980s are under increasing challenge

BUDGET 91

What options, then, does this mid-recession, pre-election Budget present for helping tbose on low incomes? Although the City and business want a Budget that would boost savings and investment, a telling proportion of pre-Bndget snbmissions hava demanded that the government act to narrow tha divide between rich and poor.

Tha Child Poverty Action Group argues for more "redistributive" government policies which do not rely as heavily on means-tested relief from "unfair" financial burdens as previous policies have. Its suggestions include the expansion of free or low-cost childcare provision.

The TUC's submission also focuses on the poor, calling for a "fairness Budget" in which child benefit is increased to keep pace with inflation.

Whatever incentives are offered, they are unlikely to alter the tax base much, if at all. The fiscal framework precludes a giveaway Budget. The Gulf war was much cheaper than expected, but the recession has turned out to be much more costly. The large public-sector surpluses of the late 1980s have evaporated in the recession climate of rising public spending and falling tax revenues.

The fiscal position also rules ont a confiscatory Budget. Tax rises or new levies would delay the onset of recovery at a delicate stage in the political cycle.

Still, according to Mr Steven Webb, a research officer of the Institute for Fiscal Studies, "chancellors like nothing more than being able to declare in thair Budget speeches that they have taken so many thousand people out of the tax system altogether".

Mr Gavyn Davies, en economist at Goldman Sachs, agrees. "Cutting taxes of the lowest-income earners would fit in with the prevailing political climate," he says.

Indeed, some economists expect personal tax allowances to be increased by more than the rate of inflation, which would take low earners out of the tax system. That would help the poor more quickly than introducing a rednced-rate income tax band.

"A reduced rate band might look politically attractive, but only those whose incomes take them to the top or above the reduced rate band will benefit," said Mr Davies.

A 20 per cent reduced-rate band, of the type last seen under Labour in 1979, could be put into effect for tha first £1,000 of taxable income, at a first-year cost to tha government of about £1.25bn.

Tha consensus is that the government could do the most for the poorest taxpayers by raising allowances.

A more difficult issue for a caring administration are the "near-poor", who have suffered most from poll tax and high interest rates and mortgage payments.

Tackling these issues would be expensive and require a radical restructuring of the tax base. Incentives for the poor are likely to be introduced more at the margin.

Motor industry hit by possible closure of key supplier

By John Griffiths

A NUMBER of major businesses are considering a receiver's invitation to buy a company which, if it were to close, would affect key parts of the UK motor industry.

The fate of Motor Panels, a vehicle design, engineering and components manufacturing concern based in central England is a matter of acute concern for Rover Group, Leyland DAF, Lotus, and a number of other companies.

The significance of Motor Panels to the UK vehicle industry lies in the highly complex component groups of which it is the sole supplier and in the key development and engineering roles it is understood to be playing in a number of the industry's future projects.

Its most important functions include supplying:

- the main body structure of the Land Rover Discovery, one of Rover Group's most successful new vehicles. (Motor Panels was also entrusted with much of the Discovery's design and development programme, completed in an industry record time of two years);
- caba for Leyland DAF's Roadrunner medium and Roadtrain heavy truck ranges, the heavy truck cabs used by Seddon Atkinson, the UK subsidiary of Enasa of Spain;
- cabs used by Iveco Ford, the Anglo-Italian truck maker.

It also provides the complete steel structure of the Elan, Lotus's first relatively high volume sports car for many years.

Following heavy investment in computer-aided design and manufacturing systems Motor Panels is further known to be involved with several important new vehicle projects.

Another member company of Motor Panels - though not part of the receivership - is Motor Panels Inc, based in Ohio and North Carolina, which supplies cabs for Mack, Freightliner, Western Star and Autocar trucks.

Mr Philip Baldwin of Price Waterhouse, the leading international accountancy firm, took on the receivership following the collapse just over a week ago of CH Industrials, Motor Panels' parent company. He said at the weekend that a price had yet to be assessed for Motor Panels.

The company's 657 employees at Coventry, central England and 150 at Wigan, in the north-west, continued to work normally last week.

Mr Baldwin said he expected to have little trouble finding a buyer for the company as a going concern.

Motor Panels has been consistently profitable, earning £2.8m pre-tax on a £28m turnover in its most recent financial year.

It provides a textbook example of how self-contained and successfully managed businesses can become casualties when the strategic plans of the larger groups who buy and sell them go awry.

The receivers were called in to CH by its banker after rising debt pushed group gearing to more than 100 per cent.

Motor Panels became part of the CH receivership because it was bound by banking cross-guarantees organised for the CH group last September.

"There is no problem with Motor Panels itself; in fact it's a pleasure to come into a company which in all other respects is in its ascendancy," said Mr Baldwin.

One possibility, which Mr Baldwin is not discouraging, is a management buy-out, which would almost certainly be led by Dr Merrick Taylor, Motor Panels managing director for many years.

While he would not identify anyone involved, Mr Baldwin said: "there has already been a lot of interest shown by various parties through intermediaries."

However, Motor Panels' success in developing such close ties with the major vehicle producers narrows the list of acceptable potential buyers.

"Whoever buys it has got to be acceptable to the major customers, and be prepared to continue to develop the company," said Mr Baldwin.

Indeed, the confidentiality clauses in agreements between Motor Panels and Rover Group and other customers mean that, with the exception of a management buy-out, whoever takes on Motor Panels will be partially 'buying blind'.

Prime minister under pressure to unite Conservatives

Tory party in disarray over poll tax

By Ralph Atkins, Ivo Dawnay and Ian Hamilton Fazey

DISARRAY within the ruling Conservative party over alternatives to the poll tax, the controversial new local tax to pay for public services, has become increasingly apparent.

It has intensified the pressure on Mr John Major, the prime minister, to reach a decision around which the party can unite.

Meanwhile in Liverpool, north-west England, the moderate Labour leadership yesterday formed an unprecedented alliance with the Liberal Democrats to pass a budget which will include 386 compulsory redundancies.

With Mr Major under attack from Labour for "dithering" he will this week try to narrow the options available.

Heated ministerial arguments on an alternative local government tax spilled into pnblic rows between Conservative MPs at the weekend. Anxiety was deepened by the loss of the Ribble Valley by-election on Thursday.

Many on the right-wing of the party urged the retention of the tax despite hints from ministers that its complete dismantling was being prepared.

One insider at the Department of Environment said Mr Michael Heseltine, environment secretary, had envisaged "a very substantial change" even before Ribble Valley. Mr Heseltine is also thought to be considering e bid for as much as £5bn extra from the Treasury next year to ameliorate the tax's impact.

Liverpool Town Hall where an unprecedented alliance will result in a large number of job cuts

The cabinet committee chaired by Mr Major which has responsibility for reviewing local government finance is expected to meet on Wednesday or Thursday.

In Liverpool, the City Council's £419m budget sets a community charge of nearly £474 per person. That is the limit above which Liverpool would have been capped by the government. If the councillors had failed to pass a budget they would have been disqualified from office. They would also have been surcharged at a rate of ebout £40,000 a day.

Institutions pay extra 20% for power shares

By Kenneth Gooding

INSTITUTIONAL investors have bid an average of 121p each for partly-paid shares in National Power and PowerGen, the electricity generators of England and Wales, compared with the 100p other investors will pay.

This indicates that the electricity companies' shares are likely to trade at a healthy premium when dealings start tomorrow afternoon. (

Formal details of the allocation of the generators' shares will be given today. They will show that the UK public will take 49.4 per cent of the shares and UK institutions 27.8 per cent. Meanwhile 10.1 per cent of the shares will go to continental Europe, 6.2 per cent to Japan, 4.8 per cent to the US and 1.7 per cent to Canada.

The institutions were invited to bid for a 16 per cent tranche of shares in National Power and PowerGen in e special tender. The proceeds of the tender will provide an extra £42m for the government.

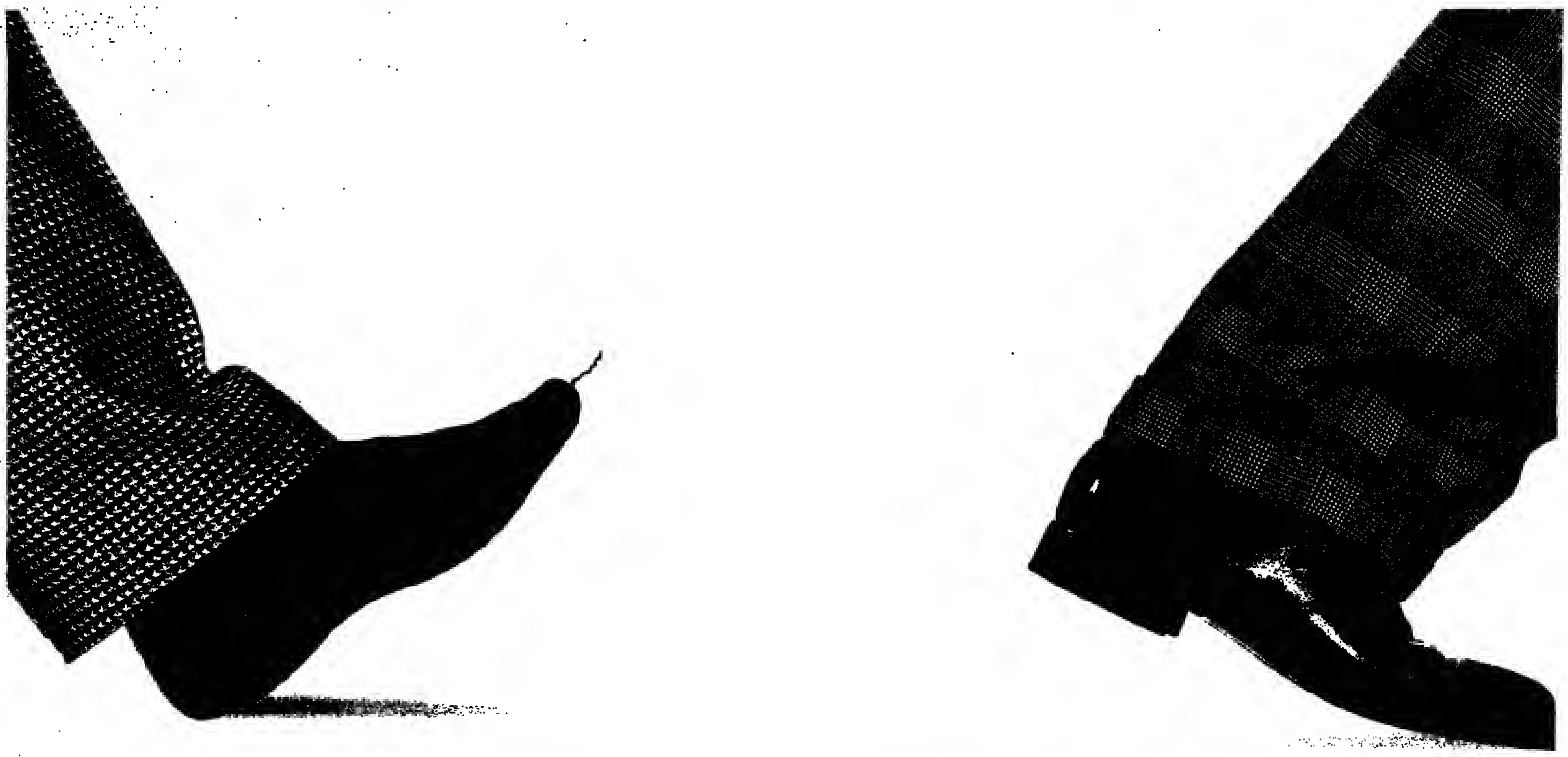
The lowest price bid by institutions was 118p a share while a very small minority bid more than 130p. The bidding was aggressive, particularly by European institutions.

Mr John Wakeham, the UK energy secretary, said the tendering process was "an ontstanding success." The £2.16bn partial sale of the generators was more than five times oversubscribed and clawback arrangements - whereby shares were taken away from overseas buyers and UK institutions to be sold instead to individuals - were triggered.

All epplicants who registered in advance for a prospectus and who applied for 10,000 shares or fewer will receive a scaled-down allocation.

The ellocation system worked ont by the government and its advisers, Kleinwort Benson, means that the 500,000 people who registered and applied for the minimum of 300 shares will receive all they applied for.

In contrast, those who applied for more than 10,000 shares - only 0.1 per cent of the total 1.91m applicants - get no shares. The allocation system ensures that no registered applicant for np to 10,000 shares in the generators receives less than 10 per cent of the application.



MANAGEMENT

David Owen explains the financial disciplines of BTR, the UK conglomerate

A tight rein with acceptable costs

Many a finance director must currently be running a rule over internal financial controls to check that they are up to scratch. In the current climate, the consequences of failure to detect incipient operational problems can be extremely serious. But tightening up without incurring unacceptable costs or triggering counter-productive head office meddling can be difficult.

Nonplussed managers could do worse than adopt some of the procedures used by BTR, the UK industrial conglomerate which oversees its 500 profit centres with a head office staff of 47.

Indeed, so unprepossessing is the headquarters in Pimlico, London, of the £7bn turnover company with products ranging from BAE baggage-handling equipment to Pretty Polly hosiery, that it might be mistaken for a public library that has fallen on hard times.

With so few resources at the centre and an exceptionally shallow (so-called "inverted saucer") organisational structure, BTR has little choice but to adopt a disciplined attitude to financial control. This holds as true in good times as in bad. "Everyone in our culture has it drummed into them that we can always do better," says Christopher Bull, finance director. "We are very hard taskmasters."

The basic apparatus of the group's "navigational" system is provided by two standard series of forms which must be completed by the general managers of all BTR profit centres: the annual profit plan and the monthly management report. The hallmark of both is their attention to detail; a full monthly report runs to 17 pages of densely-packed data. According to Bull, these documents provide "the raw material for most of the management interaction between different levels of the organisation".

Profit plans for the year ahead are hammered out with regional or central management in October. Every plan is reviewed by a main board director, with head office selecting between 50 and 100 to subject to its own scrutiny.

The plan represents each manager's corporate touchstone – a commitment to a pre-ordained level of performance in the year ahead. It is toughly negotiated in the first instance to ensure that the agreed hurdles are not too low. Should a manager consistently clear them, however, his contacts with head office are likely to be infrequent. Says Bull: "When you are approving a plan, you challenge it in great detail; but once it is approved, if they are performing on plan, they are kings in their own domain."

The need for companies in general to ensure that the measurement scale provided by any plan is adequate is one point emphasised by Ian Brindle, director of audits at Price Waterhouse. "One of the things that struck me about BTR is that they make a properly constructed yardstick, not a floppy one," he says. "The impression one gets is of discipline."

Summary or "flash" monthly management reports are available in Pimlico on the fourth or fifth working day after the end of the period to which they relate. Full-length versions must be supplied about six days later. These reports provide a comprehensive account of each business's performance.

One of the best examples of the wealth of information that these full-length reports contain is page MR5, which is devoted to working capital. The page breaks down the overall working capital figure (included in a summary of key information at the start of the report) into inventories and accounts payable and receivable. Critically, managers are asked to outline any provisions they may have made and what they are in respect of (obsolescence, stock loss etc). Says Bull: "We want to see how provisions move because that is one of the favourite places where people who want to play ducks and drakes can do so."

Accounts receivable are split into those which are current and those overdue by 30, 60, 90 and more than 90 days. Once again, provisions must be split out and deducted.

Also included is the ratio to the grand total of accounts that are either current or overdue by no more than 30 days. This was cited by Brindle as evidence of BTR's internal discipline; the implication is clearly that more than 30 days late is unacceptable.

Indeed, units are often actually penalised for sluggish collection. "In a large part of the group, we have a system where a penal rate of interest is applied to a company that does not collect in a given time," says Bull.

"We also charge interest on any amount of working capital in excess of the percentage of sales allowed for in the plan. It comes off the profit used to assess the manager's bonus."

"Normally we expect a manufacturing business to restrict its working capital ratio to no more than 25 per cent of sales and in most cases nearer 20 per cent," Bull says. In the automotive sector, with its just-in-time inventory controls and "generally prompt" payment habits, this can fall as low as 12-15 per cent.

Other key measures included along with working capital in each month's introductory summary are: profit before interest and tax, sales, return on sales,

Christopher Bull: "Everyone in our culture has it drummed into them that we can always do better"

orders received, average weekly payroll costs, manpower, return on net assets (usually expected to exceed 30 per cent), and operating cash-flow. Both current and year-ago figures are supplied, together with details of the plan that the business is working to.

If Bull were to select just one of these as BTR's most important overall indicator, he would choose return on sales, which he characterises as a critical measure of the quality of profit. The group relentlessly spurns additional volume unless it earns an acceptable return on sales after overhead recovery. "If a manager comes and says he is not going to make a sale because he is not going to get the necessary margin, he will not get rough treatment from us – provided his response is to downsize his cost structure," he says.

Measured by this yardstick, last September's interim figures were less disappointing than is commonly supposed. Although the results showed taxable profits ahead just 6.6 per cent to £590m, the group succeeded in lifting its return on sales by one percentage point.

The group's sparse head-office staff is far too thinly spread to wade through 8,500 pages per month of detailed financial data. This has two main upshots. First, the group's four regional offices are expected to act as a first line of defence behind the unit controller in the field. Second, the head-office focus is on pinpointing deviations from the agreed profit plan.

If inventory, for example, is the nub of concern, the group can call up a report flagging profit centres where stocks are more than a given percentage over plan. Trends over time – ie rate of inventory growth over the past six months – can also quickly be highlighted. Says Bull: "This sort of exception reporting is very appropriate for the way we run the group because that road-map or profit plan is fundamental and deviations from it are the main points of concern."

In terms of rectifying problems, Bull says, nine out of ten will be caught by the unit controller who will file a report to the region detailing what action he is taking. The regions themselves will in turn catch most of what slips through that net, as well as intervening if suggested action is deemed inadequate.

Only a minute fraction of deviations from plan, according to Bull, will reach head office unaddressed or undetected. In these cases, he says, normal practice is to "go back down the responsibility line", as one would expect in such a spare organisation. There are, however, "a few occasions where we will say we want to go and see that unit with the regional management".

When times are tough, the group pays particular heed to a series of ratios to sales. Materials, compensation and profit are all continuously monitored as a percentage of turnover. "When sales are down, a lot of things become even more critical," Bull explains. "The easiest thing to do is to keep on manufacturing and put things into stock, but by definition what finishes up in stock is what you cannot sell."

To work effectively, the system places great demands on BTR management in at least three ways.

● Expertise. Each general manager must be sufficiently financially competent to interpret a detailed set of management accounts quickly and accurately. As Bull puts it: "You cannot be the sort who needs everything predigested by your finance manager."

● Stamina. The shallowness of the corporate structure means that both they and their superiors have a lot of reports to process.

● Integrity. The system is only as good as the data which sustains it. "Everybody knows that accuracy and honesty of information is absolutely paramount," says Bull.

These demands must leave many of those managing companies that are acquired by BTR feeling like they have a mountain to climb. According to Bull, managers embraced by the group in this way are given 100 days to demonstrate their ability to adapt. "Within 100 days people have to have shown whether they can operate within our culture. Most of them can."

BTR'S RECORD OF GROWTH(£m)

	1981	1982	1983	1984	1985	1986	1987	1988	1989
Sales	636	725	1,970	3,487	3,881	4,019	3,149	5,473	7,025
Profits*	90	107	171	284	362	505	590	820	1,080

*Pre-tax

US/Japanese joint venture

Digging a mutual trench

Ian Roger on the proof of Shin Caterpillar-Mitsubishi's strategy

Western manufacturing companies that have had unhappy experiences with joint ventures in Japan are legion. So it is always worth studying one that is working well . . . so far.

In the three and a half years since a venture between Caterpillar Tractor, the world's largest construction equipment maker, and Mitsubishi Heavy Industries was formed to make hydraulic excavators, the companies' combined sales of excavators have jumped by 75 per cent to about Y350bn ($2.7bn).

The keys to this success appear to be that each clearly needed the other in order to survive in the excavator business and that the venture was established when the market, at least in Japan, was booming.

Whether it will continue to thrive in the tougher times signalled by Caterpillar recently when announcing last year's 58 per cent profits slump remains to be seen, but at least its managers recognise the issue.

"The question is whether we are getting the right foundations for hard times," says Keith Johnson, the venture's chairman.

The venture got its start in the early 1980s when Caterpillar admitted it had made a hash of the hydraulic excavator business and opened negotiations with MHI with a view to merging their excavator operations.

The US company had developed a line of hydraulic excavators in the 1970s, but had never put its heart in them, believing that bulldozers and scrapers would remain core construction tools.

It was wrong. Later in that decade, excavators, with their high mobility and versatility, became the biggest seller in the industry. Manufacturers in Japan, where contractors often have to work in confined spaces, became the master excavator makers; Japan has become by far the biggest market in the world for excavators.

Caterpillar already had a joint venture with MHI for making and selling its bulldozers and other heavy machinery in Japan, and MHI separately produced a line of excavators. But Caterpillar was unable to get anywhere in Japan and MHI was not making much headway elsewhere against the market leaders, Komatsu and Hitachi.

After several months of discussion in 1986, the two came up with an unusually daring deal. A new joint venture, Shin Caterpillar-Mitsubishi, was formed to take responsibility for both companies' excavator design and development. It would also take over MHI's excavator manufacturing and marketing in Japan while Cat would maintain production and marketing responsibility outside Japan. All models would carry the Caterpillar name.

Perhaps most important, all design and development of excavators would be carried out in Japan. "If we were not designing in the world's biggest market, we would have

"The question is whether we are getting the right foundations for hard times"

had a difficult position to defend in excavator engineering, and we would probably have been forced into a niche position," Johnson says.

Some 30 Cat engineers were despatched from factories in the US and Belgium to work at the design centre in Kobe.

Johnson is quick to point out that the venture has had the benefit of a booming market in Japan. The number of excavators sold annually in Japan has doubled since 1985 to about 60,000 units.

MHI's home market share had slumped from 15 to 11 per cent at the time of the merger, but has since recovered "and a bit more", he says. "And that is hard to do when the market is strong."

The merger also occurred just as MHI was about to introduce a new generation of excavators. "If we hadn't had the new line, I don't know where we would be," Johnson says.

He admits that the final proof of the merger's effectiveness will only become apparent later this year as the venture's first product designs begin to appear on world markets.

So far, the merging of design activities appears to have gone relatively smoothly. Although there have been reports of culture clashes between US and Japanese engineers working together in the venture, Johnson says: "I have been very pleased with the camaraderie that has been established."

He was also surprised at the smoothness of combining engineering standards. "Our criteria for machine performance turned out to be very close and we were lucky to have three Japanese computer specialists who were able to work out a way to convert computer-aided engineering systems from JIS [Japanese engineering standards] to SAE [US standards] and the International Standards Organisation."

The difficult points were predictable. Trying to get agreement between worldwide marketing groups on specifications for new products has been a struggle. And this is not a minor issue. Customers' demands are different in different areas, Johnson says.

The other problem area is designing for production in different factories. "We have had 5,000 man-days of visitors solely to work with designers so products can be made in other factories." For example, the Japanese factory uses more robots than the Cat factories in Europe and the US, so the specification for welding has to be adjusted.

Today, the focus for the venture is turning to the longer term. "Our factory investments are in place and the capacity is reasonable, but we are having a tough time increasing our sales and service staff," Johnson says. The aim is to increase the number of sales outlets in Japan by 50 per cent over two years.

Johnson believes the success of the venture so far has made Caterpillar, hitherto fiercely independent, take a more positive attitude to joint ventures and decentralised design. "Some products, for example, are indigenous to Europe and design control of them could be moved to Europe."

He is convinced that if Cat had not done the deal, it would be in serious trouble in Japan. "We would have survived this boom period, but we would have starved in the next downturn."

APPOINTMENTS

Senior post at Bray Technologies

Mr Tom Nairn *(pictured)* has been appointed chief executive of BRAY TECHNOLOGIES, Leeds. He was managing director of the main operating subsidiary Dale Electric.

■ Following the death of Mrs Pauline Brown, Mr David Chambers is to take over as chairman and chief executive of the LINDUM GROUP, Lincoln. Mr David Higham is promoted to deputy chairman. Mr Richard Howgate is promoted from contracts director to take over from Mr Higham as managing director of Lindum Construction. Mr Herman Kok has been appointed company secretary and financial director for all Lindum companies.

INTERNATIONAL, London, has appointed Mr Jim Hively *(pictured)*, a director, as manager, European investment banking real estate.

■ Mr David Ogden has rejoined HILLSDOWN CONTRACT HIRE as managing director following a period as managing director of ERF Leasing. He was general manager at Hillsdown.

■ GATEWAY FOODMARKETS has appointed Mr Roger Astle as associate director, fresh foods. He joins the company on Monday from Marks & Spencer.

Roffey Park changes

■ Dr Geoff Richardson has been appointed director of ROFFEY PARK MANAGEMENT COLLEGE, Horsham. He was principal, The Queen's College, Glasgow, and succeeds Dr Ian Cunningham who assumes the new post of chief executive of Roffey Park on April 1.

■ Mr Kevin Lloyd has been appointed technical director, and Mr Mark Fitchew engineering director at RPL TELECOMMUNICATIONS.

■ Mr Colin Barton has been appointed export sales director of VOLUMATIC, Coventry, part of Halma.

■ Mr Robin Bass has been appointed technical director of DEMATE IT. He was technical support manager, Computer Associates.

Sir John Fairclough *(pictured)* has been appointed a non-executive director of UAPT-INFOLINK, and of THE GENERICS GROUP. Sir John is chairman of the Engineering Council, and of Rothschild Ventures. He has been chief scientific adviser, Cabinet Office.

CONSTRUCTION CONTRACTS

Hotel in Jakarta

MOWLEM INTERNATIONAL has been awarded the project management contract for a US$150m development in the Landmark complex in Jakarta, Indonesia.

The project involves construction of the Ritz Carlton Hotel (US$70m) and two 30-storey office blocks (US$80m).

Works starts on the 22-storey 500 bedroom hotel in June, with completion scheduled for the end of 1993.

As a result of the high water table in the centre of Jakarta, and tbe proximity of otber large tower blocks, special dewatering and retaining wall techniques will be needed for the two-level basement construction.

Airport maintenance facility

LEHRER McGOVERN BOVIS INC has been chosen as program manager for the development of a $200m maintenance facility at Houston Intercontinental Airport, Texas, for Continental Air Lines.

The project will provide two million square feet on a site of 50 acres. It will be able to take ten narrow-bodied and two wide-bodied aircraft.

As well as the 12 maintenance bays there will be related workshops, offices, a central energy plant, runways and roadways. The project is expected to take three years to complete.

Expansion at Boots

COURTAULDS ENGINEERING, Coventry, has been awarded a project, worth about £7m, for the expansion of BOOTS PHARMACEUTICALS site at Cramlington.

The plant is a multi-product primary pharmaceutical manufacturing facility and must remain fully operational during the work.

The project includes design and installation of glass-lined reactors, a filter dryer and associated plant and equipment. Work has started for completion mid-1992.

Salford shopping centre

HIGGS AND HILL has been awarded a £4m design and build contract by Land Securities to upgrsde tbe Salford shopping centre, whicb was built in 1972. Covering 285,000 sq ft thc centre houses 84 tenants, including Marks and Spencer, Tesco, Co-op, Woolworths and Boots. The project will take 12 months, and trading will continue throughout. Work will include removal of the internal concrete canopies, and enclosing the malls with s pitched glazed roof terminating in glazed canopies at each entrance. There will be a new ligbting system, and concrete cladding on the canopies will be removed and replaced with glass fibre mouldings.

IN BRIEF....

LAING has won two contracts, togethcr worth almost £7m. Coordinated Land and Estates, Clydebank, has placed a £5.2m order for a 33,000 sq ft two-storey office building and a 29,000 sq ft production unit on two floors. Completion is scheduled for December.

Tbe second contract, at £1.5m, bas been awarded by Livingston Development Corporation for an extension to the Mitsubishi video recorder factory on the Houston Estate. Completion of tbe 1,400 sq metre building is planned for the autumn.

* * *

YORKSHIRE Water Enterprises has awarded s contract worth over £2.2m to BIRTLEY ENGINEERING, s *subsidiary* of Taylor Woodrow.

Tbe order is for mecbanical and electrical works required for the Calder Valley sludge storage and thickening scheme neer Brigbouse, Yorkshire. Work starts in June for completioo in May next year.

* * *

A £4m management contract for the construction of offices already let to tbe Inland Revenue at Callender Business Park, Falkirk, bss been awarded by Ithaca Estates to M.J. GLEESON GROUP.

The 47,000 sq ft building bas been designed with two three-storey wings.

It will be steel-framed with pre-cast floors, stone cladding, and glazsd curtain walling. Completion is scheduled for November.

* * *

THE LINFORD GROUP, Cannock, has won contracts totalling almost £6.5m in tbe Midlands.

Work includes enlarging and upgrading several departments at Stafford District General Hospital, and building a teacbing block at Dudley College of Technology.

Other orders are for modifications at tbe Central Ordnance Depot, Donnington; a warehouse in Birmingbam for *Europs Freight Corporation*; and repairs to ths famous moated manor house, Little Moreton Hall, Congleton.

* * *

ALBERT SQUARE,home of BBC TV's "Eastenders", is being enlarged by BOVIS CONSTRUCTION, which built the original set in 1984.

At Elstree Studios a set previously used for "Allo Allo" is to be upgraded and extended to provide furtber prodnction facilities of 1460 sq metres, and 1150 sq metres of changing rooms. Additional sound insulation will be installed.

Building a power station in Corby

KIER CONSTRUCTION, a Beazer company, has been awarded a £15m contract by Hawker Siddeley Power Engineering for the design and construction of civil engineering works and buildings at Corby power station which is to be built on the site once occupied by the Corby steelworks.

In addition to all the main civil engineering works associated with the project, Kier will design and build a hall to house two gas turbines and one steam turbine. These will drive the 350MW power plant.

Further structures include maintenance and administration buildings.

Work on the site is due to begin in April, and the project, due for completion in June 1993, forms part of a turnkey contract being undertaken by Hawker Siddeley for Corby Power.

Yorkshire Building Society offices

TAYLOR WOODROW has won a £12m contract to built a head office in Bradford for Yorkshire Building Society.

Work has started on the three-storey 100,000 sq ft building in Yorkshire Drive. The steel-framed building, featuring hand-made brick and local sandstone cladding, with a natural slate roof, is scheduled for completion next summer.

External work includes a separate generator house, and a series of roadways and car parks set in landscaped grounds.

The developer is Yorkshire Building Society Properties.

* * *

TURRIFF CONSTRUCTION,has contracts wortb over £9.3m. The largest, at £2.7m, is an order for laboratories and an administration block for Sharps of Europe, awarded by Shimizu (UK). A £1.9m warehouse is being built at Kingswinford for London & Cambridge Properties.

Specialist engineering orders

SPECIALIST engineering companies in the construction division of TRAFALGAR HOUSE have won contracts worth over £10.45m.

Colliery salvage

The largest, at over £5m, was placed with Mine Engineering Services by the Coal Board for work at the recently closed Lea Hall colliery where the company is to salvage nnderground machinery. A contract at Point of Ayr colliery is for withdrawal of equipment from a mine face.

Deepest bored piles

Cementation Piling and Foundations has several orders totalling £5.45m. In Victoria Street, London, Higgs & Hill has placed a contract for what is believed to be the deepest large diameter bored piles ever sunk in London. They will be bored to a maximum depth of 61 metres to support an eight-storey office block and basement.

Grouting workings

R.L. McLeod has placed an order for grouting old coal workings up to 42 metres deep on the M74 motorway extension south of Glasgow.

Two contracts have been awarded by Alfred McAlpine Construction for piling to bridge abutments, wing walls, and piers on the new Preston-Penwortham bypass.

Channel Tunnel terminal

TARMAC has won a £10m contract to build the main Channel Tunnel terminal.

Pasengers will be able to eat and sbop st the building at Cheriton near Folkestone, Kent, before driving on to shuttle trains for the journey to France.

The three-storey terminal will also bouse offices, car parking and customs posts. It is due for completion in the summer of 1992.

The 60-metre square building will be of reinforced concrete-frame construction with metal cladding, structural glazing and a metal-clad roof around a tented-roofed central atrium at first-floor level.

The ground floor will house the main public concourse and catering and retail areas.

On the first floor, around the central atrium, will be administration offices for Eurotunnel, and the UK frontier control authorities.

Attached to the main building by pedestrian bridges are two small pavilion buildings housing the main entrance, toilets and plant rooms.

THE WEEK AHEAD

ECONOMICS

Focus moves towards UK concerns

THIS IS a very busy week for economic releases, particularly in the recessive economies of the UK and US.

The week's main UK news will be the unemployment figures for February.

Though January's 46,200 rise was not the shocker the markets expected, there are grim expectations that unemployment could jump as high as 70,000 because of the weak UK economy.

News about the government's biggest worry – wage inflation – will come with the average earnings index for January. It is feared that there will be no fall in the underlying annual rate of 9.75 per cent.

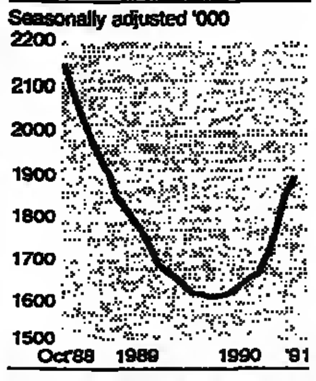
The intensity of inflationary pressures, however, should ease at the factory gate.

Last month, producer prices rose by 1.3 per cent, the biggest monthly increase for 10 years. For February, a more modest 0.2 per cent rise in output prices is forecast.

In continental Europe, the Organisation of Petroleum Exporting Countries meets in Vienna today, and UK Prime Minister Mr John Major sees German Chancellor Mr Helmut Kohl in Bonn. On Wednesday, EC finance ministers meet in Luxembourg.

UK unemployment

Seasonally adjusted '000



Other notable events and statistics, with median market forecasts from MMS International, the financial research company, include:

Today: UK, credit business for January (£150m), final retail sales for January (down 1.4 per cent). Switzerland, BIS meeting in Basle. US, housing completions for January.

Tomorrow: UK, provisional producer price index for February – output (up 0.3 per cent) input (down 0.4 per cent). Australia, Federal Government economic statement, fourth quarter industrial production. US, wholesale trade, fourth quarter current account. Japan, machinery orders.

Wednesday: UK, balance of payments, invisible earnings (£100m) for fourth quarter; capital issues and redemptions for February. US, Fed releases Tan Book, retail sales for February (up 0.5 per cent), auto sales March 1 to 10 (6.4m). Japan, trade balance for February ($5bn).

Thursday: UK, February CBI/FT survey of distributive trades, labour market statistics, unemployment (up 65,000) and unfilled vacancies (down 10,000) for February, provisional average earnings for January (9.75 per cent), industrial disputes. Germany, Bundesbank council meeting. US, January business inventories (down 0.1 per cent), February money supply. Australia, February unemployment rate (8.6 per cent). Japan, February wholesale price index (down 0.5 per cent). France, February preliminary consumer price index (up 0.2 per cent).

Friday: UK, usable steel production, provisional gross national product for fourth quarter (average measure, down 0.9 per cent). US, February producer price index (down 0.2 per cent), index ex-food and energy (up 0.2 per cent), industrial production index (down 0.5 per cent), capacity utilisation (79.4 per cent). Japan, money supply.

During the week: Germany, producer price index (flat), wholesale price index (down 0.3 per cent). Japan, fourth quarter gross national product (annual rata up 2.2 per cent).

Rachel Johnson

UK COMPANIES

THE industrial conglomerate BTR is expected to report a rare decline in profits when it unveils its full-year figures on Wednesday. Pre-tax profits of between £960m and £990m are anticipated, compared with £1.08bn in 1989. A slight downturn in return on sales is also forecast.

Taylor Woodrow, the construction group, is forecast on Monday to show pre-tax profits of between £85m to £90m compared with £116.9m the previous year.

Forecasts for Wimpey which announces its results the following day vary much more widely from £40m to £60m. This compares with profits of £134.7m in 1989. More important than the results will be the companies' comments about the outlook for the current financial year.

Standard Chartered Bank is forecast by analysts to announce on Tuesday pre-tax profits of £135m to £150m for 1990, up from £67.1m in 1989. Its shares are at an all time low and could well fall further if, as expected, Standard Chartered follows Midland's example and cuts its dividend. Even though profits are up on 1989, the result will still be well below Standard Chartered's profits of £313m in 1988. Last year the bank was hit by bad debts and there is a general impression in the City that it is handicapped by its colonial past and failing to get on top of its difficulties.

On Thursday, United Biscuits (Holdings), the McVitie's and Keebler biscuits, KP snacks and Ross Young's frozen foods group, will announce full-year pre-tax profits of about £196m, compared with the 1989 figure of £169.1m.

Legal & General, the life and general insurer, is expected to report a pre-tax profit of between £68m and £73m next Thursday, compared to £142.2m in 1989. Like the UK composites reporting last week L&G has been hit by the general deterioration in UK non-life business.

UK COMPANIES

■ **TODAY**
BOARD MEETINGS:
Finals:
BBA
British Polythene Inds.
British Vita
CIA
Commercial Bank of London
EFT
Fife Indmar
Parkins Foods
Plaxton
Sema
Second Market Inv.
Sterling Trust
TLS Range
Taylor Woodrow
Transport Development
USDC Inv. Trust
Interims:
Cornwell Parker
MAI
Thorntons

■ **TOMORROW**
COMPANY MEETINGS:
Kershaw (A.), 6 Connaught Place, W., 12.00
Witan Investment, New Horticultural Hall, Greycoat Street, S.W., 7.00
BOARD MEETINGS:
Finals:
American Trust
Blagden Inds.
CMW
Celestion Inds.
Creata Hldgs.
Glynwed Intl.
Karry
Standard Chartered
Wimpey (George)
Interims:
BM
Cala
Domestic & General
Eversel Foods
Logica
Precious Metals Trust
Strong & Fisher

■ **WEDNESDAY MARCH 13**
COMPANY MEETINGS:
Lookers, Lancashire County Cricket Club, Talbot Road, Stretford, Manchester, 12.00
Rank Organisation, Gloucester Hotel, Harrington Gardens, S.W., 12.00
BOARD MEETINGS:
Finals:
BTR
Enterprise Oil
Hillsdown
North Midland Construction
RPS
Simon Engineering
Spandex
T & N
Try
Interims:
EFM Dragon Trust
Gent (S.R.)
Lloyds Chemists
Micklegate

■ **THURSDAY MARCH 14**
COMPANY MEETINGS:
Beckenham, Britannia Inter-Continental Hotel, Grosvenor Square, W., 12.00
Central Motor Auctions, Waterside Way, Plough Lane, Wimbledon, 12.00
Derby Trust, Hesketh House, Portman Square, W., 11.00
Fleming Claverhouse Inv. Trust, Hyatt Regency Birmingham, 2 Bridge Street, Birmingham, 12.00
Kleinwort Charter Inv. Trust, 20 Fenchurch St., E.C., 12.30
Yelverton Invs., Grosvenor House Hotel, 86 Park Lane, W., 10.00
BOARD MEETINGS:
Finals:
Antofagasta Hldgs.
Appleyard
Argos
Associated British Ports
British Borneo Petroleum
Calor
Christies Intl.
Church
Clarke (T.)
Coats Viyella
Edmond Hldgs.
Hall Engineering
Legal & General
Quotient
Sale Tilney
Takare
United Biscuits
Interims:
Green (Ernest) & Partners
Merivale Moore
TSW-Television SW

■ **FRIDAY MARCH 15**
COMPANY MEETINGS:
Anglia Secure Homes, Connaught House, Stevenson Road, Severalls Park, Colchester, Essex, 11.00
Brunner Inv. Trust, 20 Fenchurch St., E.C., 12.45
Cardiff Property, 49 Station Road, Egham, Surrey, 12.00
Newman Tonks, National Motorcycle Museum, Coventry Road, Bickenhill, West Midlands, 12.00
BOARD MEETINGS:
Finals:
HTV
Kinta Kellas Invs.
Lex Service
Interims:
Sirdar
Walker (Thomas)

Company meetings are annual general meetings unless otherwise stated.

PARLIAMENTARY DIARY

■ **TODAY**
Commons: Estimate Day. Debate on Transport Industries in London. Motion on Northern Ireland business.
Lords: Disability Living Allowance and Disability Working Allowance Bill, committee.
Select Committee: Social Security – subject, Changes in Maintenance. Witnesses: DSS officials (Room 21, 10.30am).
Committees on Private Bills: Heathrow Express Railway (Room 5, 10.30 am); London Underground (Room 6, 10.30am); Severn Bridges (Room 15, 11.00am).

■ **TOMORROW**
Commons: Planning and Compensation Bill, 2nd reading. Procedure motion on the War Crimes Bill.
Lords: Criminal Justice Bill, 2nd reading. Motions on High Court and County Court Jurisdiction Order and e European Bank for Reconstruction and Development Order.

■ **WEDNESDAY**
Commons: Opposition debates on the National Health Service Hospital Crisis and another subject to be announced.
Lords: Debate on the Role of Parents and Governors in Education. Debate on the quality of Government statistics. River Usk Barrage Bill, 2nd reading.
Select Committees: Environment – subject, Landfill of waste. Witnesses: Chemical Industries Association; Keith Knox (Room 21, 10.30am).
Parliamentary Commissioner for Administration – subject, Reports of the Health Service Commissioner. Witnesses: Health Department officials (Room 19, 10.45am).
Trade and Industry – subject, Takeovers and Mergers. Witnesses: MMC (Room 15, 10.45am).
Employment – subject, Future prospects for jobs. Witnesses: CBI Representstives (Room 6, 4.15pm).
Public Accounts – subject, Defence Ministry Collaborative Projects. Witness, Sir Petar Levene, Defence Procurement Chief, MoD (Room 15, 4.15pm).
Home Affairs – subject, Horserace Betting Levy. Witnesses: TGWU and the Stable Lads Association (Room 17, 4.30pm).
Committees on Private Bills: Heathrow Express Railway (Room 5, 10.30am); London Underground (Room 6, 10.30am); Severn Bridges Bill (Room 20, 10.30am).

■ **THURSDAY**
Commons: Easter Adjournment Motion. Consolidated Fund (No 2) Bill.
Lords: Child Support Bill, committee. Agricultural Holdings (Scotland) Bill, committee. City of Bristol (Portishead Docks) Bill, 2nd reading. Motions for approval on Motor Vehicles Order and Agricultural Improvement Grant regulations.
Committees on private bills: Heathrow Express Railway (Room 5, 10.30am); London Underground (Room 6, 10.30am); Severn Bridges Bill (Room 20, 10.30am).

■ **FRIDAY**
Commons: Private Members' motions.

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Bank of Ireland Und. Fltg. Rate Prim. Cap. Nts. $210.12
Chase Manhattan Fltg. Rate Nts. 2009 $206.96
Chevron Corp. 77.5cts.
Hampson Inds. 0.6p
Woolwich Bldg. Society Fltg. Rate Nts. 1994 £338.13

■ **TOMORROW**
First Interstate O'Seas NV Gtd. Flg. Rate Sub. Nts. 1995 £192.19
Midland International Fin. Serv. BV Gtd. Fltg. Rate Nts. 1999 £408.51
Monsanto 48.5cts.

■ **WEDNESDAY MARCH 13**
Bankers Trust New York Fltg. Rate Sub. Nts. 2000 $192.19
Hydro-Quebec $12\frac{3}{4}$% Ln. Stk. 2015 6.375pc.
Walls Fargo & Co. Fltg. Rate Sub. Nts. 1994 £192.19

■ **THURSDAY MARCH 14**
BankAmerica 30cts.
Citicorp O'Seas Finance Gtd. Flg. Rate Nts. 1994 $19.84
Leeds Permanent Bldg. Society Fltg. Rate Nts. 1998 £348.29

■ **FRIDAY MARCH 15**
Beckenham 1.5p
Buffelsfontein Gold Mining 180cts.
CSX 35cts.
Calfed 3cts.
Control Securities 0.55p
Dana 40cts.
Elandsrand Gold Mining 15cts.
Ewart 0.5p
FPL 59cts.
Fleming Claverhouse Inv. Trust 6.5p
Funding 6% Ln. 1993 3pc.
Gartmore American Securities $11\frac{1}{8}$% Deb. Stk. 2014 5.725pc.
Grootvlei Proprietary Mines 5cts.
Morrison (Wm.) Supermarkets $5\frac{1}{4}$% Cnv. Prf. 2.625p
Do. $5\frac{1}{4}$% Cnv. Prf. 2.625p
Pennzoil 75cts.
Seagram 50cts.
Smith (David S.) 2.75p
South African Land & Exploration 22cts.
Southvaal Hldgs. 145cts.
Stilfontein Gold Mining 60cts.
TR Smaller Co's Inv. Trust 1.5p
Trans-Natal Coal 22cts.
Treasury 9% Ln. 92/96 4.5pc.
Trinova 17cts.
Vaal Reefs Mining & Exploration 550cts.
West Rand Consolidated Mines 50cts.
Western Deep Levels 150cts.
Whirlpool 27.5cts.
YRM 1.65p

■ **SATURDAY MARCH 16**
Agricultural Mortgage $7\frac{3}{4}$% Deb. Stk. 91/93 3.875pc.
French (Thomas) 2.175p
Treasury 2% Index-Linked Stk. 1996 1pc.

BASE LENDING RATES

	%		%		%
ABN Bank	13	Co-operative Bank	13	Nat. Bk. of Kuwait	$13\frac{1}{2}$
Adam & Company	13	Coutts & Co	13	NatWestminster	13
Allied Trust Bank	13	Cyprus Popular Bk	13	Northern Bank Ltd	13
AIB Bank	13	Duncan Bank PLC	13	Nykredit Mortage Bank	$13\frac{1}{2}$
● Henry Ansbacher	13	Duncan Lawrie	13	Provincial Bank PLC	15
B & C Merchant Bank	13	Equatorial Bank plc	13	Roxburghe Bank Ltd.	$14\frac{1}{2}$
Bank of Baroda	13	Exeter Bank Limited	$13\frac{1}{2}$	Royal Bk of Scotland	13
Banco Bilbao Vizcaya	13	Financial & Gen. Bank	13	● Smith & Williamson Secs.	13
Bank Credit & Comm	13	First National Bank Plc.	16	Standard Chartered	13
Bank of Cyprus	13	● Robert Fleming & Co.	13	TSB	13
Bank of Ireland	13	Robert Fraser & Ptnrs.	$13\frac{1}{2}$	Unibank plc	13
Bank of India	13	Girobank	13	● United Bk of Kuwait	13
Bank of Scotland	13	● Guinness Mahon	13	United Mizrahi Bank	$13\frac{1}{2}$
Banque Belge Ltd	13	● Hambros Bank	13	Unity Trust Bank Plc	13
Barclays Bank	13	Hampshire Trust Plc	$14\frac{1}{2}$	Western Trust	13
Benchmark Bank	13	Heritable & Gen Inv Bnk.	13	Westpac Bank Corp.	13
Brit Bk of Mid East	13	● Hill Samuel	13	Whiteaway Laidlaw	13
● Brown Shipley	13	C. Hoare & Co.	13	Yorkshire Bank	13
CL Bank Nederland	13	Hongkong & Shanghai	13		
● Charterhouse Bank	13	● Leopold Joseph & Sons	13		
Citibank NA	13	Lloyds Bank	13		
City Merchants Bank	13	Meghraj Bank Ltd	13		
Clydesdale Bank	13	McDonnell Douglas Bnk	13		
Comm.Bk.of London Plc	13	Midland Bank	13		
		Mount Banking	13		

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CONTRACTS & TENDERS

PRIVATISATION IN GREECE
INVITATION TO PARTICIPATE

In accordance with the Greek Government's decision to transfer a number of State-controlled companies to the private sector, the Industrial Reconstruction Organisation (IRO) intends to sell its majority shareholding in KERAFIA S.A. to interested investors. ABN BANK (Greece) has been awarded an exclusive mandate by the IRO to identify potential acquirors and intermediata in the sale of the above-mentioned holding.

KERAFINA S.A. is a vitreous chine sanitary ware producer, established in 1962. With 1989 net sales of US$6.5 million and 1990 projected net sales of US$7.2 million it enjoys an 18% domestic market share.

For the Offering Memorandum as well as further information on the proposed sale procedure and timetable, interested investors should contact:

ABN Bank
Corporate Finance Unit
3 Paparigopoulou Street
Klafthmonos Square
P.O. Box 4075
GR - 102 10 Athens
GREECE
Tel: (30 -1) 3244216
Fax: (30 -1) 3230430

COMPANY NOTICES

NEW KLEINFONTEIN PROPERTIES LIMITED
(Incorporated in South Africa)
Reg.No.01/00254/06

NOTICE TO HOLDERS OF SHARE WARRANTS TO BEARER PAYMENT OF COUPON NO.194

Holders of Share Warrants to Bearer are informed that payment of Dividend No.94 will be made in U.K. currency, on and after 28 March 1991 after surrender of coupon No.194 as follows:-

	per share pence
Dividend declared in S.A. currency 16 cents per share – in U.K. currency on 4 March 1991 at R4.3453 = £1 to:	3.23639
S.A. Non-Resident Shareholders' Tax at 15%	0.48530
	2.75009
U.K. Income Tax at 10% (see note) on gross dividend	0.32354
Net Amount	2.42655

Coupons may be lodged and listing forms may be obtained from:-

U.K.	FRANCE
c/o R.S. Brunt	Credit du Nord,
P.O. Box 1306	6/8 Boulevard
HOCKLEY,	Haussmann,
Essex SS5 5BQ	PARIS 75009

All coupons lodged with the Paris Agents and those lodged at the Hockley address accompanied by Inland Revenue declarations will be paid at the rate of 2.75009p per share.

AFC INVESTMENTS LIMITED.
London Secretaries.
per R.S. Brunt.

NOTE: The rate of S.A. Non-Resident Shareholders' Tax applicable to this dividend is 15% and relief for this has been given by deducting U.K. Income Tax at the rate of 10% instead of at the basic rate of 25%.

KAWASAKI STEEL CORP.
Japanese Yen 10,000,000,000
Reverse Floating Rate/Fixed Rate Notes Due 1995

In accordance with the terms and conditions of the notes, we hereby give notice that the Yen Libor for the period from 11th March, 1991 to 9th September, 1991 was fixed at 7.89063% giving the Interest Rate Factor of –1.9193932/360. On 9th September, 1991 interest of Yen nil will be due per Yen 1,000,000.

The Mitsui Taiyo Kobe Bank Limited
London Branch
Agent Bank

Dated: 11th March, 1991

THE ROYAL BANK OF CANADA
U.S. $300,000,000 Floating Rate Debenture Notes due 2085

NOTICE IS HEREBY GIVEN that for the Interest Period commencing on 12th March, 1991, the Notes will bear interest at the rate of $6\frac{15}{16}$% per annum. The interest payable on 12th June, 1991 against Coupon No. 21 will be U.S. $17.72917 per U.S. $1,000 nominal.

Agent Bank
ROYAL BANK OF CANADA EUROPE LIMITED

RENTALS

TRADE FAIRS, EXHIBITIONS & CONFERENCES

CONFERENCES

MARCH 18
CHANGING JOBS IN A RECESSION "The hardest job of all is changing jobs". Expert speakers on: Headhunting and Hardtimes, Understanding Recruiters, Effective Networking, Shortcuts to the Shortlist, What the Employer Wants, The Executive CV, Mastering the Interview. Institute of Directors. Contact: Chris Kohut, Century Communications 071 244 8884.
LONDON

MARCH 18
REBUILDING KUWAIT. A Briefing for British Businessmen. Arranged in assoc. with the DTI and The British Task Force For The Reconstruction of Kuwait. Speakers from both, plus the Kuwaiti Ambassador and the General Manager of the National Bank of Kuwait. Contact: Westminster Management Consultants 0483 740730.
LONDON

MARCH 18-19
World Pharmaceuticals
Hotel InterContinental, London
Enquiries: Financial Times Conference Organisation.
Tel: 071-925 2323
Fax: 071-925 2125
LONDON

MARCH 19
FINANCE FOR TRANSPORT DEVELOPMENT. Principal speaker Rt. Hon. Malcolm Rifkind MP, Sec of State for Transport London Press Centre. Road, Rail, Airport links, Finance, Design, Development Gain, Cross Subsidy, Construction, Competition. Contact: Frances Quinn 071 537 3773 Fax: 071 537 3293
LONDON

MARCH 19-21
THE LONDON INTERNATIONAL DIRECT MARKETING FAIR. Europe's leading direct marketing show. Wembley Conference and Exhibition Centre, London. For further info on the seminars and exhibition, please call Caroline Blundell, IBIS Information Services on 0727 25209
LONDON

MARCH 19-21
CADCAM '91 Europe's most comprehensive exhibition covering architecture, construction, geographic information systems, civil, structural, mechanical, electrical and electronics computer-aided design (CAD), and integrated computer-aided manufacturing and production engineering (CAM). Contact: Stella Diamond, EMAP Int. Exh Ltd Tel: 071-404 4844
NEC BIRMINGHAM

MARCH 20
THE HENLEY CENTRE'S "Review of Economic and Social Futures-Implications for Planning and Marketing" Conference. The Cavendish Conference Centre, London W1 £295+VAT. Contact: Jacqui Gotts, The Henley Centre
Tel: 071-353 9961
Fax: 071-353 2899
LONDON

MARCH 21
JAPANESE INVESTMENT IN EUROPE
Convened by The Royal Institute of International Affairs & Sumitomo - Life Research Institute. Chatham House, London. Enquiries RIIA Conferences: Tel: 071-930 2233
Fax: 071-8393593
LONDON

MARCH25
MIDDLE EAST: Managing Risk in the 1990s. Middle East Economic Digest (MEED) and Control Risks Group present a one day conference to discuss the future for international business in the region, long-term and contingency planning and financial risk management and assessment. Royal Garden Hotel. Contact Sarah Funnell. Tel: 071-404 5513 Fax: 071-430 0337
LONDON

MARCH 27
TOTAL QUALITY: HAS THE CLIMATE CHANGED? CBI/DEVELIN & PARTNERS CONFERENCE
Contact: Bernadette Dunning, CBI Conferences,
Tel: 071 379 7400,
Fax: 071 497 3646
LONDON

APRIL 8-10
TELECOMMUNICATIONS USERS ASSOC. (TUA)
5th Annual Conference
QEII Centre, London. 23 optional sessions on Management, Technical Developments and Systems Selection. £95+VAT/half day, TUA members; £115+VAT/half day, non members. Contact Quadrilect.
Tel: 071-242 4141
LONDON

APRIL 8-MAY 28
FT-City Course
Museum of London
Enquiries: Financial Times Conference Organisation
Tel: 071-925 2323
Fax: 071-925 2125
LONDON

APRIL 11
MANAGING DIVERSITY
Learn about the benefits of diversity in Britain's workforce. Cumberland Hotel. Chair: Nick Ross; Speakers include Brian Wolfson, Bryan Nicholson, Leonard Peach and Angela Rumbold. Contact: Anne Soloman 071-436 2471
LONDON

APRIL 15
The Electricity Industry Post Privatisation. An examination of the new competitive structure; regulatory and environmental implications; generation choices; and the experience of industrial customers. Speakers include Sec. of State for Energy & The Shadow Energy Sec. Contact The Economist Conference Unit. Tel: 071-976 6565
LONDON

APRIL 18
THE FORGOTTEN COSTS OF EMPLOYMENT
A seminar presented by KPMG Peat Marwick McLintock to show how to protect against hidden liabilities accruing for tax and national insurance. Contact: Pamela Austin on 071-236 8000 (fax 071-329 6103)
LONDON

APRIL 22
MONEY LAUNDERING
Portman InterContinental. London W1. Contact: Lucy Lloyd, Henry Stewart Conference Studies (071-935 2382)
LONDON

APRIL 29 & 30
World Pulp and Paper
Hotel InterContinental, London
Enquiries: Financial Times Conference Organisation
Tel: 071-925 2323
Fax: 071-925 2125
LONDON

MAY 1
SummIT '91 CONFERENCE
QE II Centre. A unique gathering of the UK IT Industry's top Executives revealing future plans and strategies for senior executives of large enterprises, Government and consultancies. Keynote speaker Sir John Harvey-Jones. Contact: Ian Ross SST International Ltd 081-427 2009
Fax: 081-861 0620
LONDON

MAY 16
TELECOMMS POLICY
Hear and question where the telecomms industry is going after the Duopoly Review. Speakers: John Redwood, MP Dept. of Trade & Industry; Sir Bryan Carsberg, Director of Telecommunications, Oftel. Contact: CommEd.
Tel: 071-274 8725
LONDON

MAY 28 & 29
Transport in Europe - Creating the Infrastructure for the Future.
Hotel InterContinental, London
Enquiries: Financial Times Conference Organisation
Tel: 071-925 2323
Fax: 071-925 2125
LONDON

OVERSEAS

MAY 15-16
EUROPEAN COMPUTER DISTRIBUTION.
Conference Spring 91.
Sheraton Tower Hotel, Brussels. Unique meeting point for Euro suppliers and resellers. Hosted by Romtec. Delegate fee: £545. Contact: Christine Comins, Romtech plc. Tel +44 (0) 628 770077.
Fax: +44 (0) 628 785433
BRUSSELS

MAY 15-17
ELEDIS '91 Electronic Data Interchange Systems in Focus. Discussing the organisation's national and international strategy, and organisational implications, of the use of international standards and the electronic interchange of data, image and voice. Tel: +39 2 9522102 Fax: +39 2 95343321
MILAN

SEPT 29-OCT 1
PSI International Payment Systems Symposium. Payment systems in transition. Managing risk & rewards through marketing and technology. Contact: PSI 3030 N Rocky Point Dr Tampa, FL USA 33607. Tel: 813 287 2774 Fax: 813 286 7377 or 2810827.
COPENHAGEN

EXHIBITIONS

APRIL 4-10
British International Antiques Fair A fine and important selection of antiques mostly pre1891.Strictly vetted. All exhibits are for sale. Contact: Linda Colban, Centre Exhibitions (A Division of NEC Ltd) Tel: 021 780 4141 ext 2760 Fax 021 780 2518.
NEC, BIRMINGHAM

ARCHITECTURE

'The crown of all sciences mathematical'

Colin Amery reviews 'The Making of St Paul's' exhibition at the Royal Academy

You have to kneel down in the Royal Academy for a real frisson of architectural pleasure. This moment comes when you reach the great oaken model of St Paul's Cathedral and you press your eye against the west door. Ahead you can see through the whole interior where shafts of light pierce the great classical procession of arches and columns. It is a serene vision. Of course, in true English fashion, the great model – Wren's superb design of 1673 – is not the scheme that was built. Wren was to endure compromise and clerical interference for years before he was able to satisfy all the parties interested in the rebuilding of the cathedral after the great fire of London. And it is the story of the development of the designs for the cathedral that is the theme of the Royal Academy exhibition: *Sir Christopher Wren and the making of St Paul's* (Burlington House until May 12).

It is encouraging that after the success of the Inigo Jones exhibition the Royal Academy was suddenly moved to fill a gap in its programme by taking on the Wren exhibition that had been such a success in Washington last year. The present London showing has the incomparable advantage of having the great model moved from the crypt of St Paul's (where it is permanently on public view) to act as the climax to what is a very straight presentation of some 100 or so drawings and engravings relating to Wren's masterpiece.

Apart from the dramatically lit model the London show is much more boring than the Washington one, where great efforts were made to ensure that Wren's London projects were seen in an entertaining and educational context of topographical and historical material. The Royal Academy seems to have a very simple formula when it comes to this type of historical exhibition, which is to mount the drawings in standard frames and show them as though they were all great works of art. There is virtually no supplementary photographic or socio-historical material on show that could make Wren come alive, and make the designing of St Paul's comprehensible and enjoyable for the average visitor to the exhibition.

This seems to me to be a shame because I know that the president of the Academy has long wanted to show more architecture – sensing, quite rightly, that the public has a thirst for it at the moment. He and his colleagues have not perhaps realised that great rooms full of architectural drawings are not in fact architectural exhibitions at all. They are rather solemn, dark exhibits – worthy and no doubt accurate by the standards of the most desiccated scholarship, but not exactly communicating the pleasure and excitement of the achievements of the English Renaissance as built by Wren.

It is in the work of Wren that the true lessons of the Italian Renaissance are brought to fulfilment in England. Wren's genius encompassed both scientific achievement and artistic talent. His love and knowledge of geometry led him naturally to architecture where he was able to subordinate theories of structural integrity to the satisfying of aesthetic considerations. St Paul's is a crucial architectural achievement in England because it raised English architecture up to Olympian heights – where it was to flourish during the 18th century. Who else but Wren could have designed St Paul's in the 1660's? Only John Webb perhaps – the "nephew" of Inigo Jones.

Some information about the position of architecture as an intellectual diversion in Wren's circle of learned friends would have helped us to understand how a man acknowledged as a brilliant astronomer, physical scientist and philosopher, came to design the cathedral of the metropolis.

Architecture was for Wren, and for friends like Evelyn, "the flower and crown as it were of all the sciences mathematical". His early experiments in building – particularly the Sheldonian theatre in Oxford – show that Wren's *first interests were in expanding* his own structural knowledge. His design ingenuity developed in parallel with his aesthetic development, fuelled by visiting Paris, where he met Bernini, and an intense study of engravings of contemporary Roman architecture.

It is hard to learn anything about Wren himself from the formal display of his drawings – many of them of interest as scientific diagrams – at the Royal Academy. We do learn by looking at the sequence of designs that from 1668 to 1675 Wren's designs changed from the centrally planned "great model" type, which gave such dominance to the dome, to a gothic plan with a long nave. He was forced by the whims of the clergy and the Duke of York to compromise somehow between gothic and classical principles. In the final design, which evolved as the cathedral was being built, Wren absorbs the influences of the Roman baroque, especially in the twin west towers, which are haunted by the spirit of Borromini.

It would be wrong to suggest that all the original drawings on show are in the hand of Wren. I suspect that there are problems of attribution, but it would have been fascinating to know who the draughtsmen were.

We know about Woodroffe and Hawksmoor, but who were the others? It would also have been helpful to know more about the phenomenal organisational aspects of Wren's achievement.

Wren was remarkable and fortunate in seeing so many of his vast projects completed in his own lifetime. His scale of activity was enormous. I really wanted to know so much more than I was allowed to by the tantalising display of drawings in the darkened rooms of the Royal Academy. But do not be depressed by the curious ways of exhibition organisers; if you want to learn more about Wren then his buildings are all around us in London. The modest and affordable catalogue is *well worth having* – a well designed innovation for the RA. Just remember that these drawings are, after all, only the palest palimpsests of the real thing.

The Wren exhibition is sponsored by Reed International, and the consortium of companies that make up the brave Paternoster Consortium which is going to be Wren's neighbour – Park Tower Group, Mitsubishi Estate Group and Greycoat plc.

The great oak model of Wren's 1673 design for St Paul's Cathedral

La fanciulla del West

LA SCALA, MILAN

In a brief programme note to his new production of Puccini's *La fanciulla del West* at La Scala, Jonathan Miller talks about the corruption of America at the end of the last century and about the fading myths of the innocent frontier, as the gold mines became a metaphor of greed and acquisitiveness.

Then, with the assistance of his set designer Stefanos Lazarides, Miller illustrates this tarnished view of the Golden West, setting the first act, the "Polka" saloon, in what looks like a vast, abandoned warehouse, gloomy and oppressive and uselessly monumental. Far from being a "home for our boys", as the traditional sign over the bar used to claim, the place looks like what in today's US is euphemistically called "a correctional facility".

The second scene, the Girl's lonely cabin, is more or less as it is usually seen (except that Minnie now has a Franklin stove instead of her cheery open fire). The last act does not take place in a clearing among stately redwoods, but is located at the head of a mineshaft, dominated by menacing machinery. All is black, including the one visible tree, small and, clearly, long dead.

Lazarides is an internationally acclaimed designer, and the sets are impressive; but they blatantly contradict the music and the text. Instead of enriching the meaning of the work, Miller's production obliterates its qualities; and the action takes place in an elaborate vacuum.

The problem with La fanciulla del West is that, in their way, David Belasco (author of the melodrama that the *libretto follows fairly closely*) and Puccini achieved something close to perfection. A contemporary sensibility may balk at the sentiment, may reject the whole fairytale of the innocent girl who tames the rough miners, whose hearts, of course, are of (what else?) gold. For that matter, they can dismiss the whole thing (in, in fact, for many years, *La fanciulla* was one of the most rarely seen Puccini operas).

But if you do decided to produce it, you have to have the swirling artificial snow and the redwoods and, budget permitting, also the horses. In the Miller version, when Minnie bids a wistful farewell to her California and her beloved mountains, she is actually surrounded by a landscape so bleak and life-diminishing that any normal girl would be overjoyed to escape it, even (as in this case) on foot.

Fortunately, Belasco's story is so well articulated and Puccini's music is so irresistible (this is one of his most subtle, and rich scores) that no production, however perverse, can prevent the audience from enjoying the piece; and Fanciulla, at La Scala, has been playing regularly to sold-out houses.

Casts have come and gone. On the night I was in Milan, the original conductor, Lorin Maazel, was absent, and the always-keen Scala orchestra was in the hands of Armando Gatto, a house conductor who obviously knows the music and relishes its lush inventions, its sheer sound. This relish led to one of the loudest performances I have ever heard.

The orchestra, to be sure, was often impressive; but the swamped singers sounded unhappy much of the time, and forced their voices with unwelcome results. The poor tenor, Giorgio Lamberti, simply couldn't make it, though he has basically a strong and likeable voice. The baritone Antonio Salvadori was a subdued, unmenacing sheriff; and even Mary Jane Johnson, an *expert Minnie*, turned shrill when she should have been sweet. On the other hand, the small always incisive roles were well assigned. Marco Chingari was a sober, affecting Jake Wallace.

Sue Blane's costumes were appropriate, and would have worked nicely also in a traditional production. Only Minnie's Fidelio-like male attire in the last scene was a serious mistake. When she entered, horseless, her blonde hair hidden under a five-gallon hat, she could not be distinguished from the others on the gloomy stage; it took a moment to pick her out, and the usual, stirring effect of her rescuing appearance was lost.

Like the Nazi version of Tosca he staged a few years ago, Miller must have started out, this time, with an idea that seemed promising. But, as in the Tosca case, it failed the test of the stage. It should have been abandoned on the drawing board. Perhaps La Scala has preserved the old Nicola Benois sets in some warehouse; with luck, they can be refurbished.

William Weaver

A different set of principals had Lorin Maazel in charge of an invigorating performance. He allowed the orchestra free rein without obscuring the profusely fascinating detail or drowning the principals. In truth, Giovanna Casolla (Minnie), Giuseppe Giacomini (Johnson) and Jean-Philippe *Lafont (Rance)* would take some drowning – the soprano metallic, sometimes strident but right on the note; the tenor firm, true and forceful, a thought complacent-looking for a bandit on the run.

Lafont's Rance was the most convincing I have seen. The efforts of some singers to show the sheriff as a subtle Scarpia-figure rarely work. The French baritone's larger-than-life presence and downright, hurly singing made much more sense.

A puff of realistically foul smoke from the mine-workings in act 3 made some of the mink coats in the stalls cough demonstratively, though it was no worse than the real smog outside.

Ronald Crichton

The Bride of Fortune

PERTH FESTIVAL

To find a new, full-length, fully-staged opera at the Festival of Perth in Western Australia is hardly more remarkable than to find such a festival in Perth at all. More than 2,000 km from any other major city, Perth has a population of only 1.2 million. Yet for 39 years it has sustained and developed an annual festival broader in content than Adelaide's (which is biennial), with attention to film, television, creative writing and light entertainment as well as music, dance, theatre and visual arts. Australia's major retailer, Myer, is its principal sponsor.

European reputations are eagerly taken up, typically that of the 19-strong string orchestra which goes under the name of the Moscow Soloists and is directed by the viola-player Yuri Bashmet. Amid all today's devotion to the pursuit of "original" or "authentic" sound, it seemed almost perverse to base a programme on Mahler's distorted inflation of string quartets by Beethoven (opus 95) and Schubert ("Death and the Maiden"), but the intensity and above all the gradation in these performances made their own musical conquest.

The Czech Philharmonic Orchestra performed under its new conductor Jiří Belohlávek, appointed by vote of the players themselves in the wake of their country's democratic revolution. Due to appear in London and at the Edinburgh Festival later this year, it played not only in Perth's excellent concert-hall but at Western Australia's biggest annual one-day cultural event – an open-air concert for 5,000 at Leeuwin Estate, Winery, a drive of three-and-a-half hours from the city, and more than that for the players, whose buses were diverted by a bush fire.

Their range of Czech music extended from Smetana and Dvořák to Janáček ("Taras Bulba") and Martinu, with some non-Czech additions but no works by living composers. There was a deep-toned warmth in the playing, particularly in the strings, but some lack of brilliance in solo passages. Perhaps Prague's best woodwind-players have already left for Vienna. Belohlavek evidently faces a task of re-invigoration.

The West Australian Opera, financially squeezed as it is under Australia's current recession, was bold indeed in mounting the première of *Bride of Fortune* by Gillian Whitehead. The libretto by the Sydney journalist Anna Maria Dell'oso centres on a young Italian woman arriving in Australia in the 1950s to meet the widower she has married by proxy. A masterly scenic design by Ian Jackson shows the rural poverty of southern Italy embracing the urban poverty of Grazia's new home in a Melbourne suburb.

Whitehead, a composer from New Zealand who resides and teaches in Sydney, avoids the regular forms of song and for the most part favours a declamatory musical line like some intensified form of speech: Janáček was perhaps her model. A soliloquy for the heroine on her outward-bound ship is eloquently touching. But the thin, undernourished orchestral contributions, much given to repetitive patterns, does not sustain the whole, despite a strongly integrated cast with Merlyn Quaife an admirably expressive heroine.

David Kram (conductor), John Milson (stage director) and Geoffrey Harris and James Orange in the male leads emerge with considerable credit.

Arthur Jacobs

Merlyn Quaife (standing) in the title role as Grazia

The Death of Christopher Marlowe

DRILL HALL, WC1

In *A Room of One's Own*, Virginia Woolf imagines the life of Shakespeare's sister. In *The Death of Christopher Marlowe*, written by Noel Greig, the Past Imperfect Theatre Company go further, imagining the lives of Marlowe's sister, father, mother as well as of the young scholar-playwright himself. And more besides.

This crazy panoramic view, working backwards from Marlowe's death and funeral, covers court, spying, warfare, sex and gender. It has a light touch; and the nine performers are so youthful and unsophisticated that at first they seem amateurish. The result is a lively, bawdy romp, touched with poetry and pathos, and a new, imaginative history.

Nothing is more disarming than the presentation of Good Queen Bess. Here she's Eliza, 10 feet high (when on stage she sits on a man's shoulders who is covered by her skirts), noisy and gleefully bossy. She and her courtiers wear shades, and both she and Sir Walter Raleigh talk in strongest Caribbean dialects.

She's blissfully uninhibited. "Goddam Deptford!" she says, as courtiers hold umbrellas over her, "It's a dump when de sun *shines*." She knows enough about men and husbands to be keen on remaining the Virgin Queen.

Another strand is the story of Marlowe's sister Jennifer. Like Eliza, she's seen too much – her parents, her sister Ann and brother-in-law Peter – to choose marriage. More fortunate than the Judith Shakespeare whom Virginia Woolf imagined, she travels abroad in boy's attire, discovers lesbian sex and foreign lifestyles, and comes back with a new interpretation of people and nationhood, an interpretation that will answer questions she and her brother asked as children; but she reaches him only when he is a corpse.

Kit Marlowe himself, dissident, gay, inquisitive and energetic, strikes a Faust-like pact with his lover and Cambridge fellow-student, Robert Poley.

For and with Poley he will spy for England; in return he will make the important contacts that will further his career at court and in the theatre.

Following Raleigh in the Irish wars, the slaughter he sees sickens him but also fires him to write about the monstrosity of empire-building. Radical art like his, Poley tells him, needs a successful government and defence policy.

Marlowe, however, has seen a French lover of his strung up and executed as a spy. Resisting Poley and the establishment, he's stabbed and left dead in Deptford.

There are other threads to this tapestry, all interwoven with entertaining fluency. A length of yellow cloth is – in quick succession – the sheet of John Marlowe's deathbed, the table-cloth of Kit's Cambridge dining-room and then the River Cam along which Kit and Poley punt, into which they fall and in which they meet. There are no ropes, but we see two people hung, and the way their heads loll and their bodies slowly swing is perfectly conveyed.

Philip Osment's direction is in every respect a model of Brechtian style, entertainingly serious.

The performers commute in and out of the story, acting several parts each, narrating in the third person, shifting the props and playing instruments.

Excellent teamwork, from which I single out just two names: Marva Alexander, for the gutsy force and fun of her imperious Eliza, and Francis Jack, less for his suavely attractive Poley than for his music – heightening atmosphere for numerous episodes, perfect as sound-effects, colourful in sonority. It runs until March 23.

Alastair Macaulay

INTERNATIONAL
ARTS GUIDE
TODAY'S EVENTS

AMSTERDAM

Muziektheater 20.00 Graeme Jenkins conducts Achim Freyer's new production of Iphigenie en Tauride, with Ellen Shade in title role. Repeated on Thurs at the Schouwburg in Rotterdam and on Sun in The Hague. Wed to Sat: Béjart Ballet Lausanne present Ring um den Ring at the Muziektheater (6255 455)

BERLIN

Deutsche Oper 19.30 Balanchine's Symphony in C, Roland Petit's Carmen and Béjart's Rite of Spring. Tomorrow: Fidelio. Wed, Thurs, Fri: no performance (3410 249)
Schauspielhaus 20.00 Riccardo Chailly conducts Berlin Philharmonic Orchestra in Haydn's Symphony No 44 and Mahler's Das Lied von der Erde, with Siegfried Jerusalem and Jadwiga Rappe (2614 383)

BRUSSELS

Palais des Beaux Arts 20.00 Ensemble Vega plays chamber music by Lekeu, Koechlin and Shostakovich. Tomorrow: Nikolaus Harnoncourt conducts Mozart programme with Vienna Symphony Orchestra. Sat: Ole Bohn plays Elliott Carter's Violin Concerto with Belgian National Orchestra at the Maison de la Radio (507 8200)
Hall St Barbe, Louvain-La-Neuve 20.30 Pierre Bartholomée conducts Orchestre Philharmonique de Liège in extracts from Berlioz' Romeo et Juliette (507 8200)

COLOGNE

Philharmonie 20.00 Telemann Chamber Orchestra plays music by Handel, Telemann, Bach and Yasushi Akutagawa. Tomorrow: St John Passion. Thurs: London Philharmonic conducted by Charles Dutoit (2801)
Schauspielhaus 19.30 Brendan Behan's play The Hostage directed by Walter Bockmayer, also Wed and Fri. Tomorrow: Richard's Cork Leg by Brendan Behan (221 8400)
Kammerspiele 20.00 Brecht's Jungle of Cities, also tomorrow, Thurs and Fri (221 8400)

DRESDEN

Semperoper 20.00 Members of Dresden Staatskapelle are joined by violist Ulrich Eichenauer and pianist Roglit Ishay in chamber music by Mozart, Schoenberg and Brahms. This week's repertory includes a ballet triple bill (tomorrow, Thurs and Sun), La Bohème (Wed) and La nozze di Figaro (Fri) (4842 731)

FRANKFURT

Alte Oper 20.00 Piano recital by Cyprien Katsaris, with music by Mozart and Brahms. Tomorrow: recital by Peter Serkin. Thurs and Fri: Martha Argerich plays Ravel's Piano Concerto in G with Frankfurt Radio Symphony Orchestra conducted by Claus Peter Flor (1340 400)
The Frankfurt Opera is closed till April 6

LONDON

MUSIC
Covent Garden 19.00 Stephen Barlow conducts Die Zauberflöte with Joan Rodgers as Pamina, Luciana Serra as Queen of the Night, Olaf Bär as Papageno and Deon van der Walt as Tamino, also Sat. Tomorrow and Thurs: Samson et Delila. Wed and Fri: Il barbiere di Siviglia (240 1066)
Queen Elizabeth Hall 19.00 Peter Robinson conducts David Freeman's Opera Factory production of Le nozze di Figaro, sung in English, also Wed. Tomorrow and Thurs in the Festival Hall: Svetlanov conducts the Philharmonia (928 8800)
Barbican Centre 19.45 Nikolaus Harnoncourt conducts Vienna Symphony Orchestra in Mozart's Haffner, Linz and Prague symphonies. Tomorrow: Mark Wigglesworth conducts BBCSO in world premiere of Howard Skempton's Lanto. Wed: Yuri Bashmet plays Mozart with ECO (638 8891)
THEATRE
This week's shows include a revival of Theatre de Complicite's award-winning production of Dürrenmatt's The Visit (National), William Nicholson's new play Map of the Heart, a romantic tangle set in wartime Sudan (Globe), Peter Hall's production of Twelfth Night (Playhouse), Joe Orton's classic black comedy What the Butler Saw (Wyndham's) and Andrew Lloyd Webber's latest musical Aspects of Love (Prince of Wales). Phone Theatreline: Plays 0836 430959 Musicals 0836 430960 Comedies 0836 430961 Thrillers 0836 430962

MILAN

Teatro alla Scala 20.00 Salvatore Accardo and Bruno Canino play music for violin and piano by Mozart, Beethoven, Janacek and Szymanowski (7200 3744)

MUNICH

Staatsoper 19.30 Giselle choreographed by Peter Wright. Tomorrow and Sat: Der fliegende Holländer. Wed and Fri: Otello. Sun: Nutcracker (221316)
Philharmonie 20.00 Esa-Pekka Salonen conducts Swedish Radio Symphony Orchestra in Mahler's Fourth Symphony and Brahms' Violin Concerto, with Cho-Liang Lin. Wed, Thurs, Fri and Sun: Celibidache conducts Munich Philharmonic (48098 614)

NEW YORK

MUSIC
Carnegie Hall 20.00 Christoph Eschenbach conducts Houston Symphony Orchestra in Brahms' First Symphony, with Pinchas Zukerman soloist in Tobias Picker's new Viola Concerto. Tomorrow and Thurs: Zubin Mehta conducts Israel Philharmonic. Wed: recital by Ivo Pogorelich. Fri: Cincinnati Symphony Orchestra and Chorus in Mendelssohn's Elijah (247 7800)
Metropolitan Opera 20.00 James Conlon conducts Le nozze di Figaro with cast led by Kiri te Kanawa, Mirella Freni, Frederica von Stade and Samuel Ramey, also Sat. Tomorrow and Fri: Der Rosenkavalier. Wed: Katya Kabanova. Thurs: new production of Parsifal (362 6000)
THEATRE
This week's shows include Lost in Yonkers, Neil Simon's new play directed by Gene Saks (Richard Rogers), Once on this Island, musical by Lynn Ahrens and Stephen Flaherty based on Rosa Guy's 1985 novel My Love, My Love (Booth), Absent Friends, Alan Ayckbourn's suburban comedy in a new production by Lynne Meadow (Manhattan Theater Club), and The Big Love, a comedy starring Tracey Ullman (Plymouth). Ticketron (246 0102) answers inquiries and sells tickets

PARIS

Salle Pleyel 20.30 Vitaly Kataev conducts Orchestre Colonne in a programme of Rimsky-Korsakov and Shostakovich, with Marc Laforet soloist in Chopin's Second Piano Concerto. Tomorrow: Gerard Schwarz conducts Ensemble Orchestral de Paris (4233 7289)
Salle Gaveau 20.30 Recital by Teresa Berganza (4953 0507)
TMP-Châtelet 19.00 Gerard Poulet and Kun Woo Paik play violin sonatas by Fauré, Schumann and Saint-Saens. Wed: Cleveland Quartet. Thurs: Georges Prêtre conducts Berlioz. Fri: Eliahu Inbal conducts Alfredo Arias' production of Les Contes d'Hoffmann (4028 2840)
Comédie Française 20.30 Beaumarchais' Le Barbier de Seville. Tomorrow and Fri to Sun: Gildas Bourdet's new production of Le Malade Imaginaire by Moliere (4366 4360)

PRAGUE

This week's events include Cosi fan tutte (tonight, Fri and Sat) and Smetana's The Kiss (Wed) at the National Theatre, Madame Butterfly (tomorrow) and Tosca (Thurs) at the Smetana Theatre, Vaclav Havel's play The Garden Party at the Nova Scena (Sun), and a Mozart programme with the Prague Symphony Orchestra conducted by Libor Pesek at the Smetana Hall (tomorrow and Wed). Pre-booking at Slune ticket agency, Wenceslas Square 28

UTRECHT

Vredenburg 20.15 Anton Kersjes conducts Netherlands Philharmonic Orchestra in Franck's Symphony in D and Bruch's Violin Concerto, with Emmy Verhey. (314544)

VIENNA

Staatsoper 19.00 Samson et Dalila with Marjana Lipovsek and Vladimir Atlantov. Tomorrow and Fri: Cosi fan tutte. Wed and Sat: new production of La Clemenza di Tito. Sun: Die Walküre with Gwyneth Jones (51444 2960)
Volksoper 19.00 Die Entführung aus dem Serail with Luba Orgonasova as Constanze. Tomorrow: Das Land des Lächelns. Thurs: Figaro. Sat: Fledermaus (51444 3318)
Konzerthaus 19.30 Alfred Brendel plays Mozart piano concertos with Camerata Academica conducted by Sandor Vegh. Tomorrow: Heinz Holliger and friends play chamber music by Zelenka, Telemann and Bach. Fri: recital by Radu Lupu (7124 6860)

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Monday March 11 1991

Priorities in Germany

CHANCELLOR Helmut Kohl is a man of vision and determination, mixed with a certain earthy charm. By exploiting the weakness of the Soviet Union to push through German re-unification last year, he showed those qualities to the world. Yet since winning Germany's general election in December, he appears to have lost his touch.

No-one doubts the chancellor's sincerity in wanting Germany to play a pivotal, peaceful role in building stability and prosperity in post-Cold War Europe. Nor should anyone be surprised that, exposed by the Gulf war and the costs of reconstructing east Germany, the newly-united nation is suffering teething troubles. For the basic problem of a united Germany lies in the range of expectations invested in it, at home and abroad. Mr Kohl has failed so far to draw up, and act upon, a consistent set of policy-making priorities.

In foreign affairs, Germany's desire – born of a painful past – to present the best possible face to the widest possible range of partners sometimes represents an impediment to any kind of decision-making. On the integration of east Germany, Mr Kohl has promised to bring incomes there up to west German levels, even though such an aim risks impeding investment east of the Elbe. Three months of muddle in Bonn have lowered Mr Kohl's credibility.

Plausible reasons

On international security matters, there was no shortage of plausible reasons for Bonn's initial lack of firmness in backing the allied action to free Kuwait. They range from the pacificism of a significant portion of the electorate to the chancellor's own boyhood memories of being bombed in Ludwigshafen. Germany subsequently made up ground by considerably raising its financial commitment after the first week of the war. Nonetheless, Bonn has still some way to go to persuade public opinion – particularly in America – that it will play a central part in future defence arrangements. A change in the federal constitution to end the ambiguity about deploying German troops outside Nato, and some clearer thinking on support for the US role in defending Europe, are both required.

For the constitutional amendment, requiring a two-thirds majority in the Bundestag, the chancellor will need the support of the Social Democrat opposition. Rather than hoping to win over SPD leaders through compromise, Mr Kohl should overcome his reticence about plain speaking and tell the nation and the world precisely what he wants.

Pressing tasks

His tasks in the economic field are still more pressing. It was a mistake before the election to say that there was no need to raise taxes to finance German unity. The decision to put them up after all is welcome, if overdue. Yet the increases in taxes and social security levies later this year, reducing purchasing power by roughly DM50bn, will take effect when the west German economy will anyway be slowing down after a three year boom. Part of the increases are meant to be only temporary, and – unless he wants to see a downturn in west as well as east Germany – the chancellor must ensure that he sticks to his promise of rescinding the income tax surcharge after 12 months. By not acting earlier he may find that the climate for appealing to Germans to tighten their belts will become less propitious.

There is another dilemma over European monetary union. The chancellor cannot heed the Bundesbank – which wants time to make the process work – without alienating the French government, which wants to speed it up before the European Monetary System becomes over-strained.

Germany needs a sympathetic ear, as well as firm words, from its friends and allies. Mr John Major visits Bonn today. It is a bonus that Mr Kohl has struck up a relationship with a British prime minister unencumbered by the recent past. Britain has its own economic and social problems which are a great deal longer-standing than those of united Germany. Yet, in trying to get its priorities right, Germany can benefit from closer links with Britain.

Subsidies up in the air

THERE ARE few worthwhile lessons in economic housekeeping which Britain can offer Germany. One, however, is the Thatcher administration's success in dismantling costly and largely ineffective industrial subsidies during the 1980s. That example commends itself particularly to Mr Jürgen Möllemann, the new German economics minister, who has pledged to curtail government aid to industry in order to free more budgetary resources for unification.

Many of his predecessors have announced similar intentions, only to cave in to powerful industrial lobbies. Mr Möllemann will soon have an ideal opportunity to show he means business when Deutsche Aerospace (Dasa), a subsidiary of Daimler-Benz, asks for launch aid for a planned family of regional jet airliners. If ever there was a proposal which should be rejected, this is it.

That the project is a trans-European venture, which also involves Aérospatiale of France and Alenia of Italy as minority partners, makes it no more deserving. Indeed, financial backing from Bonn could set back rationalisation of the European aerospace sector and seriously strain relations with governments on both sides of the Atlantic.

In reality, the impetus behind the scheme is Daimler-Benz's desire to strengthen its newly-acquired aerospace interests by becoming prime contractor for a major project. Only in this way, the company contends, can Germany build up a sufficiently powerful position in aerospace to safeguard its technological future and be able to influence industry developments at a European level.

Misallocated resources

When coupled with demands for subsidies, this reasoning smacks of the failed national champion policies of the 1960s and 1970s. The determination of individual governments to treat aerospace as a "strategic" industry led to fragmented, sub-scale production, which the Airbus consortium has failed fully to solve. Such wilful misallocation of resources is precisely what Europe's planned single market is intended to discourage.

It is in any case doubtful whether the planned regional aircraft can be profitable. However, if it is to go ahead, it should be undertaken by the Airbus consortium, in which Daimler is a leading partner. Airbus says it could develop a small jet much more cheaply by adapting its existing A320 airliner.

Rejected option

Daimler, however, rejects that option. But its eagerness for national subsidies conflicts with the free-market arguments it deploys in favour of transforming the consortium into a proper commercial enterprise with a fully independent management. Behind this contradiction lies the fear that the greater the stimulus privatisation gave to profitability, the fewer favours Airbus could afford to bestow on a high-cost German aerospace industry.

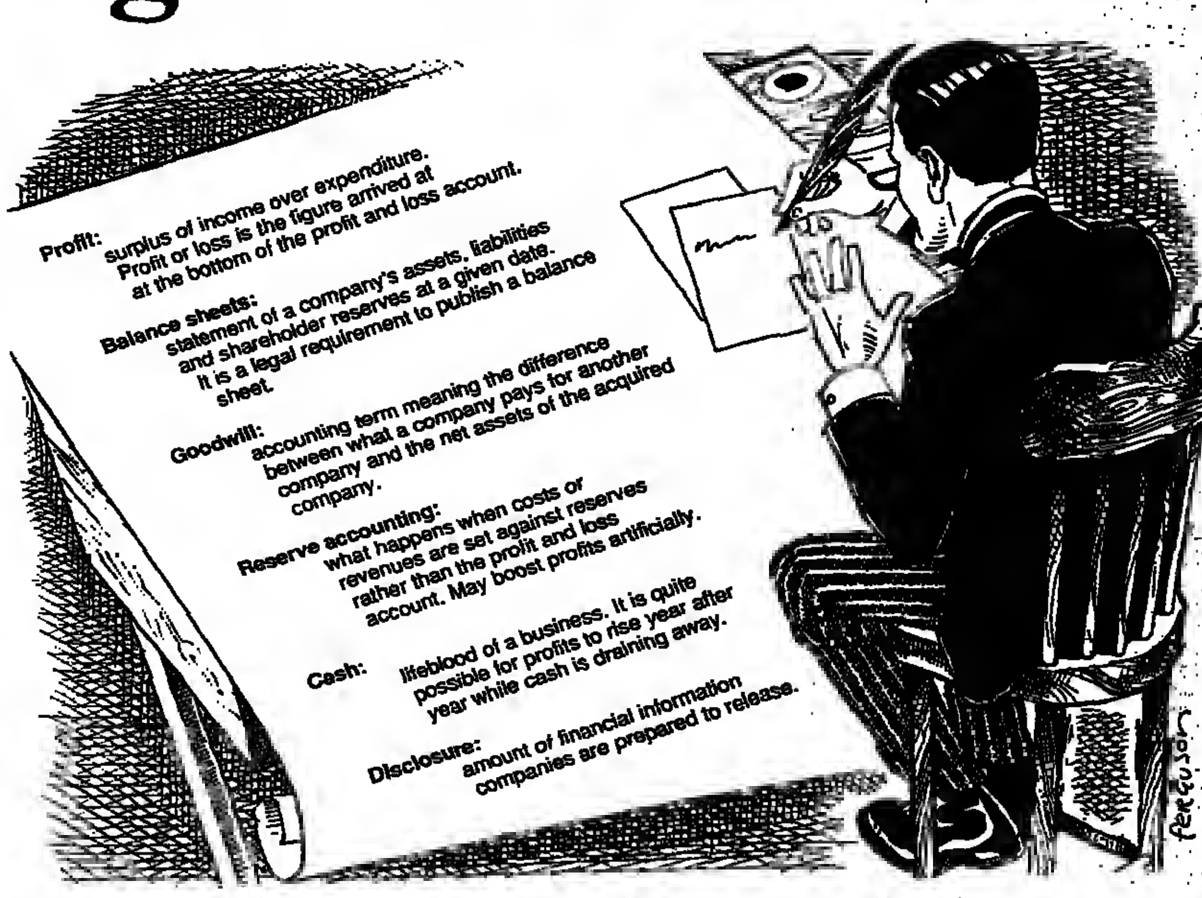
The danger that the regional airliner project could severely strain political relations in Europe has been highlighted by the British government's warning to Germany and France not to subsidise it. The UK's motives are not entirely high-minded. It is undoubtedly keen to limit the threat to British Aerospace, whose small 146 airliner has only recently achieved profitability. The 146, furthermore, benefitted from substantial government launch aid some years ago.

Nonetheless, the UK can reasonably argue that it has scaled back such support, and that Airbus has also reduced its reliance on government launch aid. If Bonn and Paris backed the regional aircraft project, they would risk starting a self-defeating subsidy race, which other countries would feel compelled to join. That would be bound to aggravate the existing dispute with the US over Airbus subsidies – above all, those provided by Bonn – and could seriously damage the world trade system.

Mr Edzard Reuter, Daimler's chief executive, has repeatedly deplored government intervention in aerospace and called for fair and open competition. Bonn should keep him to his word by telling him firmly that if Daimler wants a bigger role in the industry, it should finance the costs itself.

David Waller on the accountancy profession's efforts to put its house in order

Figuring out an agenda for reform



THE hero of Somerset Maugham's novel Of Human Bondage is sent for a spell as a trainee chartered accountant. The hero's guardian, Maugham reflects, had no idea what chartered accountants did, but whatever it was at least it was respectable.

The novel was set before the First World War and the image of accountancy has changed since then. There is still, perhaps, widespread mystery about what chartered accountants actually do for a living, but whatever it is many people are convinced that it is not respectable at all.

During the 1980s, accountants working at the big international firms turned themselves into polished financial services salesmen, offering their clients everything from auditing to management consultancy and corporate finance.

They also offered their corporate clients another important service: flexible profits. With the skilful application of ambiguous accounting rules, they helped companies alter the appearance of their results.

Lay readers of accounts tend to assume that the profit number is accurate. However, unlike cash, "profit" is an accounting invention, the product of subjective judgments and easily subject to manipulation. The only constraint on such manipulation comes in the form of accounting standards, the rules governing the way companies present their figures. These are not legally binding and in any case are very flexible.

"The last 10 years has been a time of major innovation as far as accounting techniques are concerned," say Mr Terry Smith and Mr Richard Hannah of UBS Phillips & Drew, the securities house, in a recently-published report. They argue that UK companies have taken advantage of lax accounting rules to give a consistently misleading impression of profits and earnings per share.

"The task now facing fund managers is to cut through the accounting camouflage in order to interpret the underlying trends," they say. "The penalty for getting the analysis wrong is the risk of substantial share price underperformance and in extreme cases, total loss."

A "crisis in accounting standards" was identified as long ago as 1987, when the six professional accountancy bodies initiated a review of the process by which accounting rules are set and enforced, chaired by Sir Ron Dearing, a former chairman of the Post Office.

After a couple of years, Sir Ron's committee recommended that the old Accounting Standards Committee (ASC), the arbiter of accounting rules since 1970, be replaced by a new rule-making body which would have greater financial resources and tough new legal powers.

The body – known as the Accounting Standards Board (ASB) – took over last summer and recently unveiled its agenda for reform. It plans this year to issue new edicts and proposals which will eventually lead to an overhaul of balance sheets and profit and loss accounts and will also have a profound effect on companies' reported profits.

The ASC was hamstrung because it could only issue new rules after getting the approval of all the professional bodies, often a time-consuming procedure. The new Board is able issue them on its own authority.

Furthermore, dubious accounting is to be scrutinised by a Review Panel, a new body which will be able to refer miscreant companies to the courts. The court will have powers to force companies to change their figures and to surcharge company directors for the costs of legal action. In the past, the only people policing company accounts were auditors. Their job was to say whether they thought accounts were "true and fair" – a notoriously vague formula which did not prevent companies bending the rules.

Under the new regime, companies will be required to:

- publish cash-flow statements;
- curb so-called "off-balance sheet finance" – schemes to keep debt from showing up in the main accounts;
- tighten up the rules on consolidated accounts – the aggregate picture of a parent company and all its subsidiaries.

Further proposals will require companies to give a full disclosure of profits and movements on balance sheet reserves and to carry fixed assets, such as buildings and plant, at current market values. Other draft rules will tackle theoretical issues such as the purpose of accounts and the presentation of financial information.

One way of assessing the impact of the package as a whole is to look at some of examples of flexible accounting, and to ask whether this will be curbed by the new proposals. The companies featured in the following examples are not breaking the law or even the rules: they are simply taking advantage of lax rules.

- **Accounting for mergers and acquisitions – and goodwill.**

"Confidence in published annual reports ... has been undermined in recent years by the ease with which financial statements have been manipulated by companies particularly in the context of takeover bids," said Mr Jim Carty, technical partner at Robson Rhodes, a medium-sized accountancy firm, in a submission to the ASC last year.

Takeovers have traditionally provided the most scope for bending the rules, especially those takeovers involving "goodwill", an accounting term loosely defined as the difference between the price paid for a company and the nominal value of the company's assets as stated in its balance sheet.

Under acquisition accounting rules, goodwill may be written off against balance sheet reserves. At the same time, the company is allowed to set up provisions to cover costs associated with an acquisition – for example, restructuring costs. If these costs materialise, then they are covered by the provision on the balance sheet. Future profits are thus insulated from expenditure which normally would be deducted from profits. If the costs do not reach the level of provisioning against them, what is left over can be released to the profit and loss account, thereby boosting earnings.

In its report, Phillips & Drew cites the example of Coloroll's £215m purchase of Crowther in 1988. After setting up hefty provisions, goodwill ended up being £224m, more than the purchase price. In 1988-89, the company set up provisions of £52m. Pre-tax profits for the year were £55.6m, so had the costs gone through the profit and loss account rather than the balance sheet, profits would have been just £3.6m. The incentive for using acquisition accounting is clear – profits are kept high at the expense of the balance sheet.

Last year, the ASC tried to promulgate rules which would have required companies to write goodwill off against profits, not reserves. Together with draft rules tightening up the scope for acquisition accounting in general, this would have curbed potential abuses.

However, the ASB has decided not to adopt its predecessor's recommendations. The formal reason is that the subject is too complicated for a quick solution; other observers suspect that the new body has no wish to confront industry over goodwill so early in its existence. A ruling will be issued next year.

One problem with acquisition accounting is that it is difficult to tell where profits have come from: whether they derive from businesses bought in the financial year under scrutiny or from normal trading activities. Under the ASB's proposals, this will have to be disclosed, making it much easier for readers of accounts to assess the quality and reliability of a company's profits.

- **Brand accounting.**

The successful bid for Rowntree from Nestlé in 1988 concentrated the mind of corporate Britain on the value of intangibles other than goodwill. Many large companies – including Grand Metropolitan, Guinness, United Newspapers, Smith Kline Beecham – have put a capital value on the brands they have acquired. Ranks Hovis McDougall has capitalised the value of all its brands, whether acquired or not, while WPP, the advertising agency, wrote off so much goodwill that by the end of 1987 it had negative net assets of £64.5m. It subsequently attributed a value of £175m to the names J. Walter Thompson and Hill & Knowlton and by the end of 1988, net assets stood at a positive £60.9m.

Brand accounting thus restored values to balance sheets but few analysts set much store by the figures as the companies did not disclose the basis on which the brands were valued. There are compelling arguments for its abolition but the ASB will not be issuing any rules on intangibles until next year at the earliest.

- **Off-balance-sheet finance.**

The borrowings of a so-called associate company – a company partially owned by the parent over which the parent exercises significant control – do not have to be shown in the parent company's accounts. By taking advantage of the nuances of company law, companies can finance large projects – via associates – without borrowings appearing on the balance sheet. Profits, however, do feed through to the parent company accounts.

The ASB's proposed new rules on what it calls "reflecting the substance of transactions in assets and liabilities" will require that accounting reflects the economic substance of these transactions rather than their legal form. If, in reality, the parent company is guaranteeing the debt in the associate company, that debt will have to be shown on the parent company's balance sheet.

- **Foreign currency translation.**

The demise of Polly Peck has drawn attention to what can happen when a company borrows in a strong currency to invest in soft currency assets. In Polly Peck's case, the company borrowed in sterling but most of its assets were in Turkey and Northern Cyprus. Analysts now think that surplus cash was invested in the high-yielding Turkish lire, with the result that the company's profits were boosted because of a lower net interest charge.

Polly Peck did make write-offs to cover the fall in the value of its assets denominated in Turkish lire – but these were taken against balance sheet reserves, not profits. The write-offs totalled a huge £396m between 1985 and 1989. In 1988, the write-off was £170m – £25m more than the reported profits for the year. Analysts are now arguing that a fairer picture of its financial affairs would have been given if these losses had been written off against the profit and loss account and not the balance sheet.

In time, the ASB will probably tighten up the relevant section of the existing currency translation standard as part of an overall campaign to review the package of rules inherited from its predecessor. It also intends to require companies to disclose movements on reserves prominently, next to the profit and loss account.

In the case of Polly Peck, this information was available, but it was buried deep within the notes and the investment implications of the data were ignored by the majority of analysts and other commentators until it was too late. This shows that even sophisticated users of accounts have traditionally placed excessively heavy emphasis on just a few important numbers and ratios, for example gearing and earnings per share.

In total, the ASB's proposals are designed to address the main areas of accounting abuse one by one. It is disappointing that some of the more contentious issues – namely accounting for goodwill and mergers – will not be sorted out until next year. Nevertheless, this year's package ought to make company accounts a good deal more "user-friendly" than they have typically been in the mid-to-late 1980s.

There is an "avoidance industry" out there – comprising accountants, merchant bankers and lawyers – which will be eager to help companies find their way round the new edicts. Inevitably, the new rules will be seen by some company directors as hurdles to be jumped over, obstacles to be circumvented.

However, the new powers invested in the ASB and its sister body, the Review Panel, will help to deter abuses. And it will be a lot easier to see through accounting camouflage once companies are required to publish cash-flow statements. Cash is not only the lifeblood of any business: it is also less easy to manipulate than profits. A requirement along these lines will be the ASB's first edict, to be issued soon after Easter.

OBSERVER

New German diplomat

■ When John Major visits Bonn today to work on his increasingly chummy relationship with Helmut Kohl, the inconspicuous figure of Peter Hartmann will be not far from the German chancellor's side.

Hartmann, an elegant 55, took over at the start of the year as Kohl's main foreign policy adviser following the departure of Horst Teltschik, a long-time Kohl aide.

Previously number two in the Chancellery's foreign policy department, Hartmann has a much lower profile than his tousle-haired predecessor. Teltschik, who left to head the Bertelsmann foundation, frequently clashed with Hans-Dietrich Genscher, the foreign minister, and was independent enough to pick an argument with the Chancellor - a factor behind the recent cooling in their relationship, no doubt.

Unlike Teltschik, who entered the political world from academe, Hartmann is a seasoned diplomat. He helped persuade Kohl to drop his reluctance to recognise the validity of the German-Polish border - an important factor easing German reunification.

Lately, Hartmann has been showing sneaking sympathy for the French idea of making the mooted future European central bank subject to economic policy "guidelines" from European governments - something which is anathema to the Bundesbank.

It remains to be seen whether softly-softly Hartmann will leave his mark on Kohl. But for Major's foreign policy team, he is the key man to watch for the moment.

Greenmail

■ The revelation that Jonathon Porritt, the acceptable face of green activism, has been hired as a consultant by Sainsbury's – which goes under the greenest grocer label – would be more interesting, if it had not been recycled.

Apparently, the 40-year old Porritt, former co-chair of the Green party, was hired as a one-day-a-month consultant by Sainsbury's eight months ago. Britain's biggest supermarket chain just did not bother to highlight the appointment then, presumably to avoid embarrassing Porritt, who seems to be facing something of a mid-life career crisis. It sounds, for instance, as if he is close to switching his political allegiance to the Liberal Democrats.

The fact that Sainsbury's has not worked the Porritt connection to score public points in its race to be the greenest supermarket chain, shows a commendable sensitivity. Nevertheless, with Porritt in its pocket, Sainsbury's ought to be safe from public attack from one direction at least. Doubtless, this was not the purpose of the appointment, but to outsiders, it appears to have that unintended side-effect.

Any old fur?

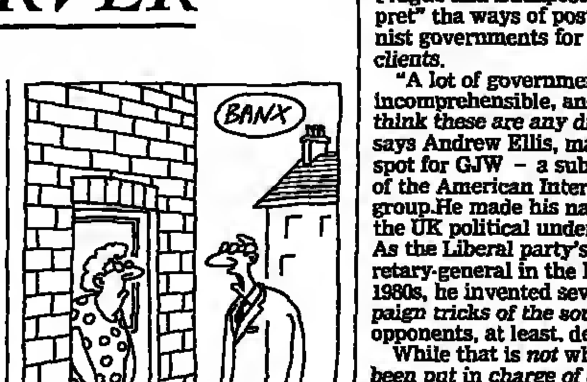
Still on the subject of environmental issues, I was intrigued by an advert placed by Michael André Furs in the Association of Jewish Refugees' monthly bulletin.

Why not convert your fur coat into a raincoat lining?

Be warned

■ If working life has somehow become less frenzied, don't take it as a welcome opportunity to slow down. Start looking for new work.

Longer gaps between telephone calls and such are the first sign of looming redundancy, according to a programme on Britain's ITV tonight: the World in Action guide to losing your job. It shows that, although the fall



"I've come to count the bricks in your house for the brick tax."

of the axe seems brutally swift to the victims, it actually jerks downwards slowly in several distinct phases.

Phase two is a flurry of small economies. Next, top management has less time to make a nuisance of itself because of a succession of meetings with strangers who never present their calling cards at reception.

The final omen is a change in your boss's treatment of you, either from icy to affable or vice versa. When that happens, not only will bullets soon be flying, but one of them already has your name on it.

I pass on those tips because of their intrinsic importance – the fact that Observer's old dad introduces the programme is entirely incidental.

Opening up

■ Hard on the heels of parliamentary democracy, professional lobbying has reached eastern Europe. GJW Government Relations, one of Britain's biggest political consultancies, has set up in Prague and Budapest to "interpret" the ways of post-communist governments for corporate clients.

"A lot of governments are incomprehensible, and I don't think these are any different," says Andrew Ellis, man on the spot for GJW – a subsidiary of the American Interpublic group. He made his name in the UK political undergrowth. As the Liberal party's secretary-general in the later 1980s, he invented several campaign tricks of the sort which opponents, at least, deem dirty.

While that is not why he has been put in charge of eastern Europe, I'm told, his duties will include lobbying. It will need to be done discreetly. The practice has long traditions in Hungary and Czechoslovakia, where the boundary between lobbying and corruption has been notoriously unclear.

But it would be wrong to think the region's still amateurish governments will be a pushover for the professional lobbyists. Jozsef Antall, Hungary's prime minister, recently hired Young & Rubicam as the government's PR consultants.

Dog bites Lada

■ Have you heard about the latest quality control test at Germany's Mercedes Benz?

Before Mercedes let one of their luxury cars leave the factory, they put a cat in it and shut the doors. After two hours, if the cat is unconscious, then Mercedes believe the sealing is correct.

Apparently, Mercedes was recently visited by a delegation from a Lada factory in Russia, and they have adapted this technique. A cat is put in the car and if, two hours later, it has not escaped, they pass the car on to sales.

I picked up this little gem from Sir Graham Day, Rover chairman, at last week's award lunch for Rover's top suppliers. Anyone got any good Rover jokes?

Robert Graham on Chile's transition to civilian rule, a year after Gen Pinochet handed over to Patricio Aylwin

A guarded step towards democracy

Chile's new parliament sits incongruously amid its drab surroundings of garages, ironmongers' shops and warehouses at the entrance to the port of Valparaiso.

Inside the unfinished building, deputies are still trying to impose their identity on an environment designed to flatter the ego of an autocrat. The upper and lower houses are boxed either side of a vast mausoleum-like chamber intended for great occasions of state.

Here, a year ago today, General Augusto Pinochet, Chile's military ruler for 16 years, finally stepped down and handed over to his elected successor, President Patricio Aylwin.

It is a fitting commentary on the changes of the past year that this marble-lined chamber is mainly used as an overflow committee-room. Parliament, which Gen Pinochet transplanted from the capital and conceived as a mere cypher, has become the nation's debating chamber.

The re-emergence of parliament is just one aspect of Chile's transition from dictatorship to democracy since Mr Aylwin took office last March. This transition has been remarkable.

The 74-year-old general allowed himself to be voted out of power by failing to muster a majority in a referendum on whether to run for another eight-year term as president. With ill grace, and some prodding from the five-man military junta, he accepted the popular verdict. This paved the way in December 1989 for contested elections won by Mr Aylwin, the opposition front candidate.

But the unique feature of the past year has been Gen Pinochet's retention of the post of commander-in-chief of the army after stepping down as head of state. The 57,000 strong army was the service arm most closely identified with Gen Pinochet and the one with the worst reputation for human rights abuses.

As a result, the former military ruler and the new civilian president have found themselves working within virtual spitting distance of each other in central Santiago. The two men do their best to ignore each other with restrained civility.

Indeed, Chile has adapted to democracy with sobriety and pragmatism. The transition has been marred by acts of terrorism committed, government officials suspect, by former members of the intelligence services. But stability has never been seriously threatened despite the deep scars left by the military's overthrow of the Allende government in 1973.

Even the publication last week of the 19,000-page report ordered by President Aylwin into human rights abuses under the Pinochet regime seems to have been taken by the country in a spirit of constructive reconciliation. The report documents 2,279 deaths of people who were executed for political reasons, died under torture or "disappeared".

Unlike Argentina or Uruguay where civilian government was restored amid economic chaos, democracy returned in Chile on the back of five years' consecutive economic growth under sound macro-economic policies. "They [the Chileans] still don't realise how lucky they are," observes a Latin American diplomat. "There has been no notable loss of confidence in the business sector; no rush of capital abroad. Such a change in the nature of a government is a unique phenomenon in Latin America . . . even in Spain just before and after Franco's death there was capital flight."

Foreign capital flows continued uninterrupted into Chile last year totalling some $1.2bn. Foreign investors – and most Chileans – either discounted in advance any negative effects or assumed the strong export-led growth of a well-managed economy provided a stable environment for the transition.

Continuity of economic policy was aided by the creation, in November 1989, of an independent central bank – the first of any developing nation. The bank's board was chosen by the outgoing regime but Gen Pinochet was persuaded to include two key members who had the tacit approval of the opposition. As a result the bank has maintained a consistent monetary policy.

Mr Alejandro Foxley, the finance minister, has sought to prove that a democratically-elected government can manage the economy as responsibly as the much-praised outgoing team, which pioneered free-market economics in Latin America. Mr Foxley, who was in the UK at the time of the 1973 coup and subsequently founded an economic think-tank in Chile, admits his economic thinking has been influenced by the results of the Pinochet regime's restructuring of the economy.

'Such a change in the nature of a government is a unique phenomenon in Latin America'

He thus has no qualms about retaining the broad lines of the former regime's macro-economic objectives. In particular, he continues to believe it essential to stimulate export-led growth and plans to raise the share of exports in the gross domestic product from 30 per cent to 35 per cent by 1994.

State revenues (in that rare Latin American phenomenon, a balanced budget) are being directed far more towards social expenditure. "We are pursuing a conservative fiscal policy with progressive ends," he says. The shift of emphasis towards the needs of the less privileged has been widely welcomed and recognised as necessary. Even the majority of the free-marketeers conceded that whoever governed after Pinochet would have had to address the problems of low salaries, insufficient housing and the large numbers unable to benefit from privatised pensions and health care.

Aylwin and Pinochet: ignore each other with civility

In general, policy has changed less than the visible symbols of the old regime. The most striking aspect of Santiago today is the lack of armour-plated water cannon trucks and paramilitary *carabineros*.

"The transition has been made easier because the military subscribe to this idea of 'mission accomplished,'" observes Mr Edgardo Boeninger, secretary-general of the presidency. The military, he says, saw their mission as removing Chile from the embrace of communism and restoring economic stability. "They have not been forced from the scene humiliated. They believe they have completed their task."

The international climate has also favoured the transition to democracy. The ending of military rule in neighbouring Argentina, Brazil and Uruguay, coupled with the departure of General Alfredo Stroessner from Paraguay, left the Pinochet regime isolated and out of tune with the region.

Mr Aylwin, the 72-year-old veteran Christian Democrat, has himself played a vital role. This time last year he still looked little more than the kindly but innocuous compromise candidate of a divided opposition. But, Mr Aylwin quickly developed his own style of authority, and astutely exploited the strength of his own party.

However, he has remained scrupulously fair to the other members of the broad 17-party governing coalition and this in turn has provided extra cohesion to what last March seemed an impossibly disparate group of potentially rival politicians. Perhaps the key to his success is the limited focus of his ambitions: to be the architect of a successful transition.

'There has been no notable loss of confidence in the business sector; no rush of capital abroad'

The president's unfussy pragmatism has proved a welcome antidote to the Pinochet era's rigid confrontational approach to government. By being conciliatory towards the military, Mr Aylwin has undermined the army hardliners who predicted he would be a stalking horse for an unreconstructed left.

His biggest test with the military could come now in the aftermath of the report on human rights abuses. He clearly wants to avoid a large-scale persecution of the armed forces but will have to balance this against popular pressure for at least token justice in the worst cases against.

"If we do this well," observes Mr Sergio Bitar, one of the leading theoreticians behind a new pragmatic left in Chile, "the reconciliation process need last no more than two years. If we do it badly, we will be just putting a bandage on an infected wound."

Mr Aylwin has also proved more than a match for Gen Pinochet. Fears of the latter's power to destabilise the transition to democracy have proved largely unfounded. On occasions President Aylwin has played tough, such as when late last year he turned down the nomination of two generals proposed by Gen Pinochet. The garrulous general sounding off on the state of the nation sounds more and more like a cantankerous back-seat driver who cannot see the road.

Gen Pinochet is entitled to remain commander-in-chief of the army for another seven years; but his declining prestige and age render this unlikely. His age also separates him from those now in the senior ranks, and his only real peer left in the services is Gen Fernando Matthei, the commander of the air force, who President Aylwin has asked to stay on. Pinochet's reputation has been tarnished by revelations about a loan racket run by former secret police officers inside the army, a scandal now under investigation by the authorities.

"Pinochet is likely to be further embarrassed by the report of the government commission into human rights violations committed under the military," says human rights lawyer Gustavo Villalobos.

But with Gen Pinochet and his associates discredited, arguably the most important aspect of the report for Chile's new democracy concerns the judiciary. The report is critical of the way judges and the Supreme Court played along with the military. The judicial system had been undermined by a vast corpus of military laws, by special courts and by Pinochet-appointed judges who ensured that no action prospered against the abuses of the military regime. As part of the process of consolidating democracy, President Aylwin has announced an overhaul of the judiciary to make it more independent.

More generally, the past year has demonstrated that Chile has moved beyond the politico-economic system envisaged by the 1981 constitution. Gen Pinochet and his supporters planned for an indefinite period of "guided democracy" under an autocratic presidency and a subservient legislature before graduating to "adult" democracy.

To ensure that this remained the case, the upper house, the Senate, was given important blocking powers to prevent changes in the constitution, and the president was permitted to nominate nine of the 38 senators. The manner in which senators were elected in 1989 favoured Pinochet supporters, and as a result the Right can count on a block of 22 senators.

For the moment there is little the politicians can do to change the unsatisfactory constitution. They will have to rely on the old guard's good sense to understand that the constitutional safety valves intended to preserve "*pinochetismo* without Pinochet" are both unnecessary and counter-productive.

US interest rates

A remedy worse than the illness

By Lionel Stoleru

From the Second World War to 1980, inflation was a big problem for western countries, especially when, after the oil shocks of 1973 and 1979, it reached double digits. During the same period, interest rates were at levels below the inflation figures, partly wiping out savings.

Then came the revolution instigated by Paul Volckar, then chairman of the US Federal Reserve. At the end of 1979, he pushed US interest rates up to 20 per cent. Since then, they have remained above inflation; in other words, real rates are positive. Thanks to this revolution, double-digit inflation disappeared between 1980 and 1990 and savings went up, consistent with the capital needs of investment.

In the last six months, this picture has been radically changed by the policy of Alan Greenspan, Mr Volcker's successor at the Fed. During this period, the rate of Federal funds went down continuously, although inflation went up. Graph lines representing these two rates almost crossed in January when 12-month inflation rose to 6.3 per cent and interest rates dropped to 6.5 per cent, bringing real interest rates almost to zero.

Optimists will judge that Mr Greenspan is simply looking for a short-term adjustment. On this view, the zero rate is intended only to move the US economy out of the recessionary portion of the business cycle, by easing industrial investment and encouraging the recovery of the banking system and building sector. Inflation is expected to fall soon and real interest rates to become positive again. In fact, longer-term interest rates have remained positive.

But there is also a pessimistic view. Were real interest rates to remain at zero (or become negative), then we would go back to the situation prevailing in the 1970s, with high inflationary expectations and dwindling savings as returns diminished.

This would be exactly the reverse of what we need for the 1990s. The capital needs of technological progress, economic reform in eastern Europe and reconstruction in the Gulf create an excess demand for capital. Meeting the demand implies consistent efforts to raise savings throughout the world, and thus the maintenance of positive real interest rates at least equal to the general growth rate – that is, 2 per cent or 3 per cent.

As these inflationary pressures and this disequilibrium in the supply and demand for capital appeared, we would have to raise interest rates again, and again pay the price of Mr Volcker's revolution – temporary extremely high interest rates designed to bring down expectations.

Stop-go policy was never a good idea in the monetary field. We need stable money and stable interest rates. This is true for any currency; it is even more true for the dollar, which is the world currency.

Therefore, bringing down dollar interest rates directly affects world equilibrium. Either yen, D-Mark and Ecu interest rates have to follow, or, if they do not, the gap creates huge disparities and exchange rates must adapt.

This is what is happening now. The dollar falls below a level that is economically reasonable and the D-Mark has to adjust, since – taking account of east German reconstruction needs – German interest rates cannot go down without leading to a capital shortage.

The result is that this month we can observe a wide gap between real interest rates in the US (almost zero), Japan (about 3 per cent) and France and Germany (almost 6 per cent). Financial operators are therefore faced with opportunities to take advantage of differentials which could be dangerous.

Using US interest rates as a tool of short-term domestic economic policy might therefore be a remedy worse than the illness. Stable world growth needs stable, positive real interest rates roughly equal to the rate of growth. Let us not forget it.

The author is French minister of planning.

LETTERS

Training the employed comes first

From Mr T. Cann.

Sir, Richard Layard ("Why the Tecs need new objectives", February 27), appears convincing until one considers it in real rather than theoretical terms. Also, the amount availabla for Tecs to spend on employed training is under 5 per cent of Tec budgets, and probably considerably less than £1m per Tec.

The package proposed would mean that we in East Lancashire should spend 80 per cent of our funds or an additional £12m training 4,000 people, a quarter of our unemployed, and that this will give them jobs that will generate more added value.

Where will those jobs come from? While a small number may arise from shortages, training the unemployed will not in itself create many jobs.

The way to create jobs is to improve higher level skills such as those in management, supervision, product design and development, so companies become more competitive.

This will mostly involve the employed which is why training for the employed is top of many Tec agendas. The importance of the programme is that it can be used to lever many times this amount from industry, so that it is not only a key programme to improve our economy and create jobs, but is also good value in terms of public expenditure.

Tony Cann,
chairman,
East Lancashire Training and Enterprise Council,
Suite 507, Glenfield Park Site 2,
Northrop Avenue,
Blackburn, Lancs.

IMRO's role as drafter of rules

From Mr J.A. Morgan.

Sir, Mr Wells in his letter of March 6 makes an eloquent plea for realism among financial services regulators; and he specifically mentions the activities of the Investment Management Regulatory Organisation.

It would be possible to take issue on specific points, but on the general purport of his complaint we can only agree: we share his concern that our rule-making process should be – still – occupying so much of our, and our members', time. The consultation programme is partly responsible, and Mr Wells clearly agrees with the principle of wide consultation; but our objective bas been and still is to reacb some certainty, and bring the process to a conclusion, as soon as we reasonably can.

Our proper business is regulation, not rule-drafting. The sooner we can concentrate on that, the better. We accept at least some of the complaint Mr Wells levels at us, but hope that achieving some finality will he thought worth the effort.

J.A. Morgan,
chief executive,
IMRO,
Broadwalk House,
5 Appold Street, EC2

Putting paid to 'us and them'

From Mr Michael Landon.

Sir, I was surprised that you gave so much prominence to a study of employee share ownership based on just one company ("It is still 'ns and them'", March 7). The evidence of more extensive surveys of employee attitudes carried out by ourselves and the Involvement and Participation Association suggests that employees of companies with all-employee shara schemes have more positive attitudes than those in companies without.

It is hardly surprising that the employee share schemes in the company concerned have not yet transformed employees' attitudes. Since it is a "privatised utility", it is probable that employees have owned the company's shares for a short time only and that the size of the reward derived from their shareholding has so far been small in comparison to their total income.

Moreover, improvements in employees' attitudes towards a company cannot be expected if the "us and them" attitude of managers is unchanged.

Employee share ownership is only likely to be successful if it is accompanied by a commitment by the company to keep employees informed about the business and to consult them about important issues affecting the company.

Ownership of the company is much more meaningful to employees if they experience greater involvement as well as a financial reward.

Michael Landon,
The Wyatt Company (UK),
Park Gate,
21 Tothill Street,
London SW1

Debtor days in southern Europe

From Mr Jean-Yves Lecerf.

Sir, I read with interest Charles Batchelor's article regarding debtor days in European countries ("Long costly waits for satisfaction", February 11). You do not seem to include Spain as a European country, which is a pity since further study would have illustrated a tendency in southern Europe to practise longer average credit days than in northern Europe.

This may be due to the banking system, in conjunction with the structure and nature of the distribntion network, when the clients' credits are usually supported by the supplier rather than by the banks.

Jean-Yves Lecerf,
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Plaza de Colon,
28046 Madrid

Fax service

LETTERS may be faxed on 071-873 5938. They should be clearly typed and not handwritten. Please set the fax machine for fine resolution.

Turkey's position as European and Islamic state

From Mr Nurver Nures.

Sir, I should like to draw to your attention what I consider to be a number of misleading impressions given by your article on Turkey and the Gulf in the issue of February 27.

First, the remarks abont Turkey's geo-political location made by Mr A Kurtcebe Alptemocim whila he was visiting the US are not quoted in full. Mr Alptemocin at no time said Turkey was not a European country. On the contrary, he emphasised that Turkay was both a Europaan and a regional state. You may be interested to know that this was one of the messages of his mission to the US.

Turkey's geo-strategic location is unique. It is indeed a European, a Mediterranean, a Balkan and a Middle Eastern country. It has an important place in the Islamic world. As a secular Islamic state with European credentials, Turkey is not only Europe's gateway to the Middle East in cultural and economic tarms hut also a hridge between the world of Islam and the west. It is the only associate partner of the European Community which enjoys a treaty right to eventually become a full member. Turkey is a founding member of the Council of Europe.

Second, I taka umbrage at the reference made to Turkey's so-called historical claims to the oil-rich Iraqi provinces. The fact that Turkey's president's name is linked to this reference adds insult to injury. Turkey lives by Ataturk's motto: "Peace at bome, peace in the world".

The Turkisb govarnmant throughout tbe Gulf crisis repeatedly underlined in official statements that the territorial integrity of the regional states should be strictly respected and preserved. It was for this very reason that Turkey, at an unbearable cost to its economy, fully applied from the very outset the sanctions imposed upon Iraq by the UN.

During operations, Turkey lent tactical support to tbe coalition forces by making its military installations available. This was all done due to the fact that Kuwait's territorial integrity was savagely violated. The author of the article is surely aware that by its very stance during the crisis Turkey contributed to the swift conclusion of the war, thus helping to save many lives.

Third, there is no question of Turkey "making a bold pitcb to improve ties with Saudi Arabia" as such. Turkey not only enjoys historical and cultural ties with Saudi Arabia hut has also maintained excellent relations with that kingdom since it gained statebood. In fact, Saudi Arabia responded to the firm stand taken by Turkey on the Gulf war hy providing oil on a grant basis to our country.

Nurver Nures,
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FINANCIAL TIMES
Monday March 11 1991

BAKER IN THE MIDDLE EAST

US warns Iraq on use of chemical weapons

By Peter Riddell, US Editor, in Washington

THE US has warned the Iraqi government of "serious consequences" if it uses chemical weapons to suppress internal unrest.

US officials refused to spell out what the reaction might be, but there were reports yesterday, quoting senior administration officials, that the options might include air strikes against Iraqi military units using poison gas against rebels.

President George Bush and his national security advisers have not apparently reached a final decision on a possible response.

However, though a resumed ground offensive is reported to have been ruled out, as has any pre-emptive attack.

The US hopes that its strong warning will prevent the use of chemical weapons, especially since allied air forces are able to react.

Mr James Baker, the US Secretary of State, said yesterday during his Middle East tour that the US "would not look at all favourably on any use by Iraq of chemical weapons".

In Riyadh, Mr Baker won support from the foreign ministers of the six Gulf Co-operation Council states, together with Egypt and Syria, for a four-point peace programme.

This involves a new security structure, regional economic assistance, arms control and steps towards resolving the Arab-Israeli dispute.

Yesterday, Vice-President Dan Quayle confirmed that a warning had been given to Iraq "at the highest levels possible, that if Saddam Hussein and his military begin to use chemical weapons, they will first be held personally accountable, and we will take this very seriously and that there will be serious consequences."

He declined to say what the US might do.

Warnings that the US will not tolerate the use of chemical weapons have been delivered both by State Department officials and by Mr Thomas Pickering, the US ambassador at the United Nations.

The possible movement of chemical weapons has been indicated by intercepted Iraqi communications to commanders in Najaf and Karbala and by allied reconnaissance flights over Iraq.

Mr Quayle said that intelligence reports indicated that in certain parts of Iraq there was almost total chaos.

He suggested that in the northern part of the country, with a predominantly Kurdish population, there was more instability and more insurrection than in the south around Basra, and particularly Baghdad, where Saddam Hussein still had control.

He added that "Saddam Hussein is not compatible with a lasting peace. He has conducted war twice in the last decade, once against Iran and now against Kuwait.

"On the other hand, if you would have a radical Shi'ite government in Iraq, that could be destabilising."

He stressed that the US had no plan to go in and impose a government on the people of Iraq, other than encouraging the Iraqi military and people to oust Mr Saddam.

Arabs back plan for Mideast peace initiative; Rebels to step up anti-Saddam fight; Firefighters start work in oilfields this week; Kuwaitis ponder how best to borrow, Page 2

James Baker conferring with Saudi Arabian foreign minister Prince Saud Al Faisal in Riyadh yesterday

Mr Major, caught in the Valley of Despond

By Anthony Harris

The UK prime minister Mr John Major is being accused of dithering over the poll tax replacement, which shows that he is a better politician than his critics. It is an easy thing to devise a better tax – even the Liberal Democrats, who are proposing the next worst alternative, campaigned successfully for change. It is much harder, if you actually have to enforce the change, to agree on which of the better taxes to adopt; and hardest of all to introduce it without losing votes. And that is before you weigh the economic and financial consequences.

Tax reform is always a mess, because of the calculus of winners and losers. Those who gain from a change are at best half-grateful; they might have done better. The losers are enraged. When any change is proposed, the civil servants have to draw up exhaustive tables of winners and losers. The rules are then changed to ensure that the winners are in a very large majority. By this time the excellent principle involved in the original proposal has usually been distorted out of recognition.

That is why the US will still take years to remove the worst distortions introduced in the tax reform of 1986, which was originally designed to remove distortions. And that at least was a national tax proposal: the Administration had the power to put the best possible face on it when they set the rates. British local taxes are different. The rates are set by local authorities, for whom any change in the tax system is seen as an opportunity to raise extra revenue while blaming Westminster.

This leads to a further nasty result – interference from the centre. Nearly every government believes theoretically in local democracy. Scheme after scheme has been designed to create a fair distribution of the resources which have to be provided from the centre and to leave the local councils to take it from there. It seldom works. Even in normal times constraints on borrowing have been used (and rightly) to check the more grandiose schemes by which aldermen used to like to be remembered. After a tax reform it is much worse; since the government of the day and opposition local authorities have opposing interests, the interference becomes ever more intrusive. Spending powers are restricted, those which remain are capped and it becomes even easier for local councillors to blame Westminster for everything that goes wrong.

No Greek tragedian could devise a more inevitable plot – any volunteers for Oedipus? No wonder Mr Major must sometimes wonder if it might not be better to leave the whole mess as it is. Even before Ribble Valley, though, it must have been clear that this fence cannot be refused. In the short time it has been in force it has become clear that the poll tax is not only economic nonsense – we will come to the Treasury arguments, which Mr Major no doubt knows by heart – but even worse administratively. It works like this. The tax is regressive, so it has to be tempered by bigger central government support – as the Treasury foresaw – but this leads not only to lost opportunities for other tax cuts, but to a vicious piece of arithmetic.

As the share of total spending financed locally falls, the leverage between local spending and local taxes grows, since the whole marginal burden falls locally: a 10 per cent overspend could double the local tax in poor authorities. This might be welcome to Tory opponents of local spending, but unfortunately the same gearing applies to any unfairness in the central formula for spreading resources. The civil servants who devise the distribution formula really do try do get it right, but perfection is impossible. A few percentage points of unfairness in assessing local needs results in a much bigger rise in the local poll tax. Yet again, the government can be blamed. Finally, there is the economic principle of the thing – which should, of course, come near the head of the list in an objective analysis, but will always come last in a political decision.

When the Treasury mounted its guerrilla campaign against the introduction of the tax, it argued that the abolition of a tax based on property values was wrong in principle as well as being bad for future budgets. Virtually no economist would question this. The case for a tax on property values, which goes right back to David Ricardo and the American populist economist Henry George, who argued that land was the only legitimate base for taxation, still has some wistful followers in the Vauxhall Bridge Road. It is supposed by its extreme supporters to be costfree, except to landowners, since they in theory charge full market rents and cannot pass the burden on to anyone else.

This is a caricature of the land market as we actually know it, as the victims of the uniform business rate know only too well. In real life the adjustment process is messy and causes heavy casualties. What is true is that a good part of the burden of a property tax is borne not by incomes – even land-owners' incomes – but by capital values. (That is one reason why domestic property prices in the US, where value-based taxes are the general rule, are so much lower in relation to income – and indeed in cash terms – than in this country.

That is the real economic merit of a property tax, for, as we have seen in the last few years, volatile house prices have enormous economic effects. The introduction of the poll tax, which gave the biggest savings to the most expensive houses, was one factor in the personal credit boom which inflated demand, undermined the balance of payments, and so set off our present discontents. Dampen the house market, and economic management is much easier.

Economically, then, the poll tax was crazy. But would you, if you were in Number 10, want to bring back a house property tax just when the market is dead in the water? And if not, when would you do it? If I were Mr Major, I would be dithering too.

Tax reform is always a mess, because of the calculus of winners and losers. Those who gain from a change are at best half-grateful; they might have done better

The introduction of the poll tax, which gave the biggest savings to the most expensive houses, was one factor in the personal credit boom which inflated demand

UK government attacked on ILG collapse

By Paul Betts and David Churchill in London

THE British government will come under attack in the House of Commons today over its handling of the collapse of the International Leisure Group, the Air Europe and Intasun travel company.

The group risks going into receivership this week unless a buyer can be found for all or part of it.

The UK department of transport confirmed yesterday that Mr Malcolm Rifkind, the transport secretary, had known of the company's difficulties for some time. "We did have a couple of meetings with Air Europe, the second of which was a few days ago," it said.

The Civil Aviation Authority also came under fierce attack yesterday from members of parliament from both sides of the House for its handling of the ILG crisis.

Mr Kenneth Warren, chairman of the all-party Commons Trade and Industry Select Committee, said: "The CAA is duty bound in law to have full information as to the financial viability of any airline. I think passengers who have lost their money have cause to find out of they can sue the CAA for neglecting their duty".

Sir Robert McCrindle, chairman of the all-party aviation group, said that the CAA "should have issued some sort of statement indicating there was a risk in people buying Air Europe tickets."

The CAA, which is responsible for granting air licences, safety and guaranteeing public service interests, will come under attack in the Commons for not monitoring more clearly the financial position of Air Europe.

Administrators from KPMG Peat Marwick McLintock, who were appointed by the court on Friday, spent the weekend trying to save both the airline and the tour operation.

But they admitted yesterday that time was fast running out. "We are under extreme time pressure to effect a sale as the value of the business is diminishing daily," said Mr Tim Hayward, one of the joint administrators.

The CAA gave the administrators formal notice late on Friday night that it was withdrawing the air travel charter operator licences granted to ILG after the statutory three working days, which would expire on Wednesday.

This immediately led to the decision by the Tour Operators Study Group to call in ILG's £62.3m ($119.61m) bond, lodged with a syndicate of banks, to enable it to bring home the 25,000 ILG passengers abroad and refund the deposits for the estimated 400,000 people who have already booked summer holidays with ILG.

It emerged last night that Lloyds Bank, which had already lent ILG £50m, was also the company's main bond guarantor, with a liability of £10m.

The Association of British Travel Agents also withdrew ILG's membership over the weekend, which means that ABTA's 3,000 travel agents cannot now sell ILG holidays. This effectively means the end of ILG's tour operations.

Mr Hayward said yesterday he was disappointed that the Study Group had taken action when parties were expressing interest in buying the business. "Clearly their action seriously reduces the prospects for a going concern sale."

The administrators would not elaborate on the prospective purchasers, but it is understood that a number of continental European companies, including two from Germany, have indicated an interest in entering the UK market.

Although the administrators are still sorting out ILG's financial structure, it is understood the net liabilities have been found to be about £300m, with contingent liabilities – mainly for holidays booked through the company – of about £250m.

Many UK travel agencies were open all weekend to cope with ILG customers.

Details, Page 6

UK telecoms watchdog to allow US competition

By Hugo Dixon

AMERICAN companies will be able to offer rival international telephone services to UK subscribers in competition with British Telecom and Mercury Communications when the US government lifts restrictions on British telecommunications groups.

A policy document on telecommunications, published last week by the British government, abolished the duopoly held by BT and Mercury in all areas except international services. But Sir Bryan Carsberg, director general of Oftel, the industry regulator, says that the international market will also be opened to competition as soon as foreign governments open their markets to British groups.

In an interview, in which he elaborated on the government's new policy, he said that US companies such as American Telephone & Telegraph would be allowed to compete when the US government removed the heavy regulatory burden on British companies operating in the US and allowed them access to the US radio spectrum. Both these moves are being considered by Washington. Sir Bryan also revealed that:

- The government is likely to bring forward plans to auction parts of the radio spectrum to the highest bidders. The idea would be to apply similar principles that have been devised for broadcasting, where the ITV licences are now up for auction, to telecommunications.
- BT will not necessarily be permitted to increase its line rental charges by more than the current rate of 2 per cent per year in real terms when price controls are reviewed in 1993.
- BT's international prices can be expected to fall further after a 10 per cent cut due in June. Oftel would reveal more information about BT's finances insofar as it is able under the 1984 Telecommunications Act, which prevents the watchdog from publishing confidential information except in customers' interests.
- Oftel might not press for the introduction of fully-fledged "equal access", which would allow customers to choose between rival long distance services by dialling different codes, when the issue is reviewed in 1993.

Soviet forecast raises spectre of 1930s

By John Lloyd in Moscow

THE Soviet economy is forecast to dive into a recession so deep that its own official forecasters are making comparisons with the famines which beset the country in the early 1930s.

Gosplan, the official planning institution, has produced a forecast which shows that GNP will fall this year by at least 11.6 per cent – whatever policies are followed.

Industrial production will fall by 15 per cent and agricultural production by 5 per cent, according to Gosplan. The institution's forecasters say the decline in GNP could be as much as 16 per cent unless the government institutes a number of hard decisions – including price rises – very soon.

The Soviet Union was gripped by severe food shortages this winter and had to introduce rationing and appeal for foreign aid despite a record 1990 grain harvest of 240m tonnes, up from 211m tonnes in 1989.

The forecasts – calculated on the Gosplan central computer, the most capacious in the Soviet Union – were the first made by the organisation, which has been the all-powerful Soviet organiser of production and distribution. They formed the basis of the Soviet submissions to organisations such as the International Monetary Fund and the European Community, regarding the economic situation, but these had not been made public.

They were revealed to a team from BBC-TV's Money Programme, and were broadcast in the UK last night.

Mr Yakov Urinson, a Gosplan economic forecaster, told the BBC: "The situation in the economy has been getting more and more explosive, and I think it is now at breaking point. Firm decisions must now be taken by the government and we must stop balancing between the old way and the new way.

"I see an abyss ahead – economic, political and social – a return to the horrible times we lived through in the country in the past. I mean the famine of the '30s, the repressions of 1937."

Mr Boris Fyodorov, former finance minister of the Russian Federation, which is seeking greater economic autonomy from the Kremlin, said he would not wait for parliament to adopt laws and would prefer to see immediate action.

N Korea opens economy

Continued from Page 1

likely purchases and said that companies from France, Sweden and the UK had already supplied some of these goods.

There are currently several business delegations, including a 49-member team from Taiwan, in the North Korean capital. A senior European diplomat in Pyongyang said that North Korea had also agreed to purchase 1m tonnes of crude oil from Iran.

North Korea's economy is suffering from last year's poor harvest, which has caused food shortages, while reduced imports from the Soviet Union have exacerbated energy shortages.

But foreign businessmen in Pyongyang argue that North Korea has the potential to exploit its reserves of natural resources. Mr Chang estimates gold deposits of about 2,000 tonnes in 200 mines controlled by the Daesong group.

The Daesong group comprises four main business activities – mining, textiles, foreign trade financing, and services. It has 11 subsidiary groups. According to Mr Chang it represents about 10 per cent of North Korea's industrial production.

Belgrade under siege

Continued from Page 1

detention on Saturday night of Mr Vuk Draskovic, leader of the Serbian Renewal Movement, the biggest opposition party, was confirmed.

A statement issued yesterday by the eight-member state presidency after its emergency session, said the collective head of state "was decisive in using all means to ensure constitutional order, to defend the citizens and property, and to prevent violence and destruction."

The meeting was boycotted by Slovenia and Croatia, the independence-minded western republics, which are locked in conflict with Mr Milosevic over Yugoslavia's future political structures.

Politicians from Slovenia and Croatia yesterday condemned the use of force "in the democratic, and peaceful demonstrations". The demonstrators had called for the resignation of Mr Milosevic, an uncompromising nationalist communist. They chanted "Slobo is Saddam" and "down with the Red Mafia".

Meanwhile, nineteen opposition deputies have already started a hunger strike in Parliament.

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	18	61	Berlin	C	11	52	Caracas	C	34	93	Faro	F	17	63	Islamabad	F	22	72
Algiers	C	19	66	Biarritz	C	13	55	Casablanca	S	17	63	Florence	S	17	63	Istanbul	C	9	48
Amsterdam	S	14	57	Bombay	S	29	84	Chicago	S	-4	25	Frankfurt	S	13	55	Jakarta	C	32	90
Athens	C	15	59	Bordeaux	F	15	59	Cologne	F	15	59	Geneva	C	7	45	Jersey	F	11	52
Bahrain	-	-	-	Boulogne	R	11	52	Copenhagen	C	5	41	Gibraltar	C	16	61	Johannesburg	F	25	77
Bangkok	F	34	93	Brussels	F	14	57	Corfu	R	14	57	Glasgow	C	9	48	Lima	F	27	81
Barcelona	S	18	64	Budapest	S	11	52	Dallas	S	5	41	Helsinki	C	-3	27	Lisbon	C	16	61
Beirut	-	-	-	Buenos Aires	R	27	80	Dublin	C	11	52	Hong Kong	C	21	70	London	R	10	50
Belfast	S	11	52	Cairo	S	27	81	Dubrovnik	F	15	59	Innsbruck	C	10	50	Los Angeles	F	12	54
Belgrade	C	7	45	Cape Town	F	22	72	Edinburgh	C	9	48	Inverness	C	9	48	Luxembourg	F	12	54

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Madeira	S	19	66	Milan	F	-5	23	Nicosia	F	17	63	Salzburg	C	9	48	Tenerife	F	19	66
Madrid	F	17	63	Montreal	F	-10	14	Oporto	C	16	61	San Francisco	F	11	52	Tokyo	F	14	57
Majorca	S	19	66	Moscow	S	-2	28	Oslo	Dr	1	34	Seoul	C	4	39	Toronto	S	-4	25
Malaga	F	20	68	Munich	C	9	48	Paris	C	13	55	Singapore	F	31	88	Tunis	C	16	61
Malta	F	16	61	Nairobi	C	25	77	Peking	F	5	41	Stockholm	Dr	1	34	Valencia	F	21	70
Manchester	R	11	52	Naples	C	16	61	Prague	F	10	50	Strasbourg	F	14	57	Venice	C	14	57
Manila	F	32	90	Nassau	F	30	86	Reykjavik	S	2	36	Sydney	C	21	70	Vienna	C	7	45
Melbourne	S	18	64	New Delhi	S	28	82	Rhodes	F	17	63	Taipei	F	28	82	Warsaw	C	3	37
Mexico City	m	m	m	New York	S	-1	30	Rio de Janeiro	m	m	m	Tangier	F	18	64	Washington	F	2	36
Miami	S	13	55	Nice	S	15	59	Rome	F	16	61	Tel Aviv	S	19	66	Zurich	C	9	48

Temperatures at midday yesterday C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sunny Sl-Sleet Sn-Snow T-Thunder

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INSIDE

Agnew's focus on the small screen

Mr Rudolph Agnew (left), the recently-appointed chairman of TVS Entertainment, is used to big numbers and large risks. As former chairman of Consolidated Gold Fields, the British based mining company, he survived a hostile bid from Minorco before succumbing in 1989 to Lord Hanson and a £3.3bn ($6.2bn) offer. Yet Mr Agnew believes he is now facing his most intriguing business problem ever – bidding for an ITV franchise. Raymond Snoddy reports. Page 18

Board changes at Ford Sellar

Mr Irvine Sellar has been replaced as chairmen of Ford Sellar Morris, the USM-quoted property company struggling to reduce its debts. Mr Ronnie Aitken will take over as FSM's non-executive chairman. He already held the deputy post. Mr Sellar remains as chief executive, taking over the duties performed by Mr Tony Leyland, who has resigned to go to another company. Page 18

Cavendish 29 per cent ahead

Cavendish International Holdings, a property to energy company in the Hutchison Whampoa empire of Mr Li Ka-shing (left), increased after-tax consolidated profits of by 29 per cent from HK$1.02bn ($130m) to HK$1.32bn in 1990. The major contribution came from associated companies and there was an extraordinary credit of HK$147m from the disposal last July of the Hutchison group's 4.62 stake in Cable and Wireless of the UK. Page 19

United Bus plans private issue

United Bus, the majority-owned bus and coech subsidiary of DAF the Dutch commercial vehicle maker, is planning a private share issue totalling around Fl 85m ($49m). As a result of the issue some 60 per cent of the United Bua equity will be floated off chiefly to inatitutional investors and investment companies. Page 19

Market Statistics

Companies in this section

Bull warns of FFr6bn loss

Lorentz: keen on partnerships

By Alan Cane in Paris

GROUP BULL, the troubled French computer manufacturer, expects group losses for 1990 to exceed FFr6bn ($1.14bn). For 1989 the company incurred a deficit of FFr267m on sales of FFr32.7bn.

Operational losses for 1990 will be about FFr3bn. This is in line with forecasts that Mr Francis Lorentz, the group chief executive, made late last year.

However, total losses could reach FFr6bn because of restructuring charges being agreed with the French government. Negotiations over the charges have delayed the announcement of Bull's 1990 financial results until the end of this month.

Mr Lorentz said on Friday that the the group reorganisation plan, announced last year and designed to return Bull to profit by the end of 1992, was well under way. He identified three principal developments.

● By the end of 1991, the group's staff levels worldwide would be 20 per cent lower than on January 1, 1990. This indicated a loss of 8,000 jobs, or about 30 per cent of the workforce, since the group restructuring began in earnest in 1989.

● Significant rationalisation in management structure had been achieved and by the end of 1991, manufacturing would be reduced to six main sites. Manufacturing capacity, as indicated by head count, was being reduced by 30 per cent.

● Next week, Bull would announce a new product architecture to underpin its entire future product strategy. This would tie together its proprietary designs with the industry standard products which were the fastest growing part of the computer business.

Honeywell of the US and NEC of Japan hold 12.8 per cent and 15 per cent respectively of Bull HN, one of the group's operating units whose structure is being changed as a result of the restructuring plans.

Mr Lorentz is keen for Bull to form partnerships and alliances with other computer companies to cut costs and share research and development expenses.

"No European company will be able to survive alone by 1995," he said.

He added that an example of the development he was anxious to encourage was the joint research centre Bull established in the early 1980s with ICL of the UK and Siemens of Germany.

After ICL's sale to Fujitsu of Japan, the centre's management had decided to open membership to other companies within and without Europe.

It was already holding discussion with a number of potential new partners.

Pan Am's future hangs in balance

By Nikki Tait in New York

THE FUTURE of Pan Am, the cash-strapped US airline, hung in the balance yesterday. On Friday night the company failed to make a full loan repayment due to Bankers Trust and United Airlines.

Pan Am's ability to make the repayment depends on whether it is allowed to sell its Heathrow route authorities to United Airlines for $290m. This matter, which has been under discussion for four months, is currently the subject of intense negotiations between US and UK officials in Washington.

Yesterday, Pan Am remained "hopeful" that there would be a speedy and favourable outcome to the inter-governmental talks, which resumed on Thursday and have continued throughout the weekend.

Other parties to the talks, however, were less enthusiastic, although they noted that these discussions had persisted for four days, suggesting that progress was being made.

Pan Am, which has already sought protection from its creditors under Chapter 11 of the US Bankruptcy Code, also said it was continuing to seek an extension to the loan facility. It stressed that, in the meantime, flights were operating normally.

Pan Am is understood to have drawn down around $100m of the $150m loan facility provided by United and Bankers Trust.

The money was designed to tide the carrier over until the negotiations between the two governments allowed the proceeds of the Heathrow route sale to flow. Pan Am was attempting to negotiate an extension by the middle of last week, but on Friday Bankers Trust was emphatic that the deadline would stand. Some of Pan Am's operating assets have been used as collateral for the loan, giving the lenders a considerable potential say in the company's future.

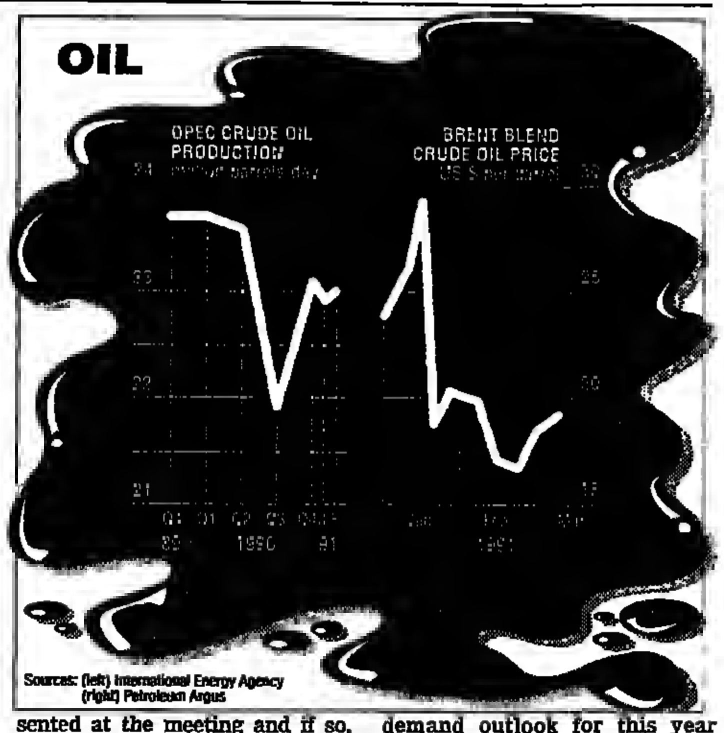
Yesterday, United declined to discuss the status of the loan, or any further negotiations over an extension.

Aside from the Bankers Trust/United loan, the company faces a potential problem over a $33m payment due on aircraft leases. There is a legal dispute over whether Chapter 11 gives a carrier protection from these sort of payments.

In Pan Am's case – in contrast, to that of Continental, also in Chapter 11 – the bankruptcy judge has ruled that Chapter 11 does not give such protection. Pan Am, however, is able to appeal the judgment.

Oil forum for a more assertive Saudi Arabia

Any signs of disarray at today's Opec meeting could force prices sharply lower, writes Deborah Hargreaves



Sources: (left) International Energy Agency (Right) Petroleum Argus

When ministers from the Organisation of Petroleum Exporting Countries (Opec) begin their meeting in Geneva today, they will want to send a clear signal to world markets of a willingness to rein back oil production if they are to prevent a slide in prices in the next three months.

But, in the wake of the Gulf war and the changes it has wrought in the regional power structure of the Middle East, this meeting could see oil market logic subordinated to a jostle for power inside the Opec producers' tenacious coalition. Above all, it is likely to be a forum for Saudi Arabia's new assertive role.

Traders will be watching anxiously for every sign of disarray among the 13-member organisation, which could shave several dollars a barrel from the current oil price.

A widely-expected post-war plunge in oil prices has not materialised largely because the market has pinned its hopes on a cut in Opec output.

At talks in Vienna 10 days ago, six of the organisation's smaller producers underlined the need to staunch the flow of oil which has been running flat-out to replace Iraqi and Kuwaiti oil in the market since last year's invasion.

Demand for Opec oil in the second quarter of this year is estimated to be up to 2m barrels below the cartel's current production rate of 23m barrels a day (b/d). Since Iraqi and Kuwaiti oil is not yet in the market – and is not expected to be on stream until much later in the year – producers would not have to trim much off their output levels to match up with the call on their oil.

But the Opec meeting is unlikely to focus on a straightforward mathematical calculation. Saudi Arabia is in no mood to slash its own output levels after boosting its market share from a quarter of Opec production to a third since last August, thanks to hugely expensive investments.

To push this point home, the kingdom may be prepared to sacrifice short-term price stability for a larger piece of the action. "Saudi Arabia is playing the game for the long term and is prepared to see a rough second quarter to establish the principle of higher market share," says Mr Joe Stanislaw, at Cambridge Energy Research Associates in Paris. This implies that Saudi Arabia has no short-term price objective and could happily see oil prices fall several dollars below Opec's $21-a-barrel target until much later in the year – price in a bid to secure a larger slice of output for the long run.

One Opec delegate said that the kingdom will definitely be pushing to reward those producers which have boosted capacity during the Gulf crisis by expanding their official shares of overall production. Saudi Arabia, the United Arab Emirates and Venezuela are those producers which have invested to bring new capacity on stream and expect to remain producing at higher levels.

Sandi Arabia's aspirations may mean that few hard decisions are taken at this week's meeting. The current buoyancy of the oil price has saved Opec from facing an urgent need to curtail production and the prospect of a price decline has failed to move the organisation in the past.

This could see the meeting reaffirm the 22.5m b/d production ceiling which was established last July, entailing a cut in current output of only 500,000 b/d. But this may not be enough to comfort the oil market with demand at low levels, and prices could move sharply lower.

"They may put off the hard decisions until June's meeting, when lower prices may force them to clarify some of the political issues such as how Iraqi oil may be accommodated back in Opec," says Mr Fareed Mohamedi, senior economist at The Petroleum Finance Company in Washington.

Saudi Arabia may produce oil on behalf of Kuwait while the country is under reconstruction, with Kuwait paying back later in cash or oil deliveries. This would underline the kingdom's dominant position within Opec.

It is likely to be countered by Iran which is hoping to gain more clout inside Opec now that Saudi Arabia's insistence on keeping Iran's quota on a par with that of Iraq will probably come to an end. Iran has traditionally pushed for higher prices, with allies among the smaller producers; it could be willing to produce oil on behalf of Iraq.

Iran is expecting to boost its capacity by over 1m b/d in the next two years. It might wish to stake its claim now for a higher market share in future. It is still unclear if Iraq will be represented at the meeting and if so, by whom. Mr Issam Al-Chalabi, Iraq's former oil minister was fired when he introduced petrol rationing last year. Iraq started the war over low oil prices and is unlikely to change its tune since it needs high revenues even more than before to rebuild its shattered country.

But it will be some time before sanctions are lifted and it could take longer to get oil flowing again.

The large stocks of oil in floating storage held by Saudi Arabia, Iran and Venezuela which were built as a buffer in case of wartime disruption to production are still hanging over the market. There may be no quick drawdown, since the storage of oil close to consumers gives producing countries more flexibility to exploit short-term market movements.

The market will remain worried about the timing of the disposal of these stocks. The oil demand outlook for this year remains low; the International Energy Agency, the west's oil watchdog, estimates world demand at 54.3m b/d with supply at 53.5m b/d, implying a stock drawdown of 800,000 b/d.

Mr Stanislaw is predicting a fall in price for Opec oil to $14 to $16 a barrel in the second quarter, indicating a price for North Sea Brent crude of $16 to $18 a barrel.

North Sea Brent oil for April delivery was trading at $18.75 a barrel at the end of last week after firming slightly in a quiet but cautious market.

The irony of this week's meeting, believes Mr Mehdi Varzi, oil analyst at Kleinwort Benson in London, is that – because neither Iraq nor Kuwait are producing – all other prodncers could end up with a greater chunk of output than is enshrined in their traditional quotas. But it could take some tough negotiating to get there.

Economics Notebook

The heartening spirit of public-spending glasnost

PUBLIC expenditure has always been the neglected part of Britain's peculiar two-stage annual Budget process.

So it is heartening to report that most government spending departments have willingly embraced a spirit of glasnost and decided to tell the public more about how they spend their income from taxes than ever before.

While Mr Norman Lamont, the chancellor, and his top Treasury officials have been closeted in pre-Budget purdah, the ministriea have issued their own departmental reports, detailing planned apending for the coming 1991-92 financial year and giving an outlina of their outlays in the two following years.

The new reports – 20 in all – flesh oot the information provided in the chancellor's Autumn Statement. They replace the old Public Expenditure White Paper.

Making the spending departments responsible for their own reports has produced a remarkable variety of ways to present what was formerly very dull data. Some ministries, notably the Treasury itself and the Department of Energy, have stuck to the old formula of closely written text and compendious tables; although the report on the Chancellor of the Exchequer's own departments breaks new ground by including pie charts and other illustrations.

At the other extreme, the Home Office has produced a glitzy work that could be mistaken for the annual report of an advertising consultancy were it not for the cover price of £19.50. Mr Kenneth Baker grins from the first of its 95 stylish pages as if to dispel the impression that home affairs is a dour business involving prisons, policemen and the like.

The cult of personality is also apparent in the report of the Office of Arts and Libraries. This contains a full-page photograph of Mr Tim Renton, the minister for arts, as well as colour pictures of Cezanne's "Allée à Chantilly" and a 1779 harpsichord, which the nation has acquired in lieu of inheritance tax payments.

The best value award must go to the report of Mr Michael Heseltine's Department of the Environment, which provides 178 pages of clear and well preaentad information for £17.20. But this is still a substantial sum. And although the reports in aggregate probably contain twice the information provided under the old system, the cost of obtaining them has risen sharply.

The spending departments have failed to take on board recent criticism levelled et the government for allowing prices for which it is responsible to rise more quickly than inflation. The Ministry of Defence report, for example, is a clear, brief and straight-forward work with oo flashy photographs and printed on recycled paper. Yet its £5 cover price is 56 per cent higher than that of last year's report.

The cost of the Home Office report has risen by £12.80 or 191 per cent over the past 12 months, which seems a hig increase for 55 extra pages, even though they are glossy. It also seems to be less informative than many other reports. For example, it gives the 1990-91 Home Office publicity budget as £12.1m. But this particular reader had to turn to the previous year's report to find that equivalent spending in 1989-90 was much lower at about £9m. Tha high cost of the information is one reason why Mr Andrew Likierman, professor of accounting and financial control at the London Business School, will give only "two cheers" to the new system of reporting.

But Mr Likierman, who has been campaigning for years to make government spending more accesaible to the taxpayer, is nonetheless encouraged by what he reads. He calculates that the various departments have probably published some 1,600 pages of information about their speoding plans over the past few weeks. In January 1968, by contrast, the entire Public Expenditure White Paper covered just 14 pages.

Fiscal Boost

Last week's news that Mr Andrew Dilnot hes been appointed director of the independent fnstitnte for Fiscal Studies at the tender age of 30 is encouraging proof that it is not elways necessary to acquire a string of post graduete degrees to make progress in the economics professioo.

Mr Dilnot started working on a part time basis for the IFS while still in the second year of his Oxford BA Honours course in politics, philosophy and ecoomics. On graduating in 1981, he decided to "take a risk" and join the IFS rather than continue his studies.

He has proved to be a prodigious writer on fiscal matters, with 84 learned articles and the joint authorship of two books to his name. Such output is typical of the IFS, which over the past 10 years has built up an unrivalled reputation for the spread and clarity of its analysis of tax matters.

Peter Norman

Coopers & Lybrand cuts staff by 200

By Philip Coggan in London

COOPERS & Lybrand Deloitte, the UK's largest accountancy firm, will be maklog 200 employees redundant over the next six months, out of its total workforce of almost 12,000.

The job losses are the most significant aign yet that the recession is affecting tbe accountancy sector, which has expaoded substantially io receot years.

Mr Brandon Gough, joint senior partner, said that a combioation of factors had left Coopers with 500 more employees than the firm had planned. "People are not leaving the firm at tbe same rate as normal," he said, because other accountancy groups were not recruiting. And although Coopers es a whole was doing more business than it was a year ago, certain areas of the business had suffered. "There are parts of the consultancy business where the balance of demand has been changed," Mr Gough said.

Mr Gough said it would be "foolish to say another round [of redundancies] is out of the question," but it was boped the current measures would deal with the probtem. The firm still plans to recruit substantial numbers of staff this year.

Maxwell makes last try for NY Daily News deal

By Alen Friedmen in New York

MR ROBERT MAXWELL, the UK publisher, returned to New York last night in a last-ditch effort to reach agreement with striking unlons at tbe New York Daily News. He has said he will buy the loss-making tabloid if the paper's unions will co-operate in negotiating big job cuts.

He began the talks last Thursday after the Tribune Company of Chicago – parent of the Daily News – said it signed a letter of intent to sell the newspaper to Mr Maxwell if he could agree e deal with the unions. Tribune has said it will close tbe newspaper by March 15 if it is not sold. It has set e deadline of this morning for Mr Maxwell and the unions to reach agreement.

Mr Maxwell is seeking $70m (£37.2m) of cost reductions from the nine striking Dally Newa unions. The atrike has crippled the paper, caused the loss of most of its advertising and halved its circulation from 1.2m since last October. The $70m of expense cuts translates into 800 jobs, one third of the union positions at tbe newspaper. On Saturday evening, after two days of round-tbe-clock talks, Mr Maxwell cbecked out of his suite at the Waldorf Astoria and flew to Loodon, saying he was less optimistic about buying the Daily News.

The newspaper lost $100m last year and has forecast a $60m loss in tbe first quarter of 1991. Mr Maxwell told reporters on Saturday he was flying back to Loodon to celebrate his wife's birthday and his 46th wedding anniversary, but that he would return to New York by last night in order to carry on the talks.

Mr George McDonald, the president of the Allied Printing Trades Council, the strikers' umbrella group, was enthusiastic at the start of tbe Maxwell talks. But he was quoted yesterday as saying "we are far apart".

Ronnie Aitken steps up at debt-laden Ford Sellar

By Jane Fuller

FORD SELLAR Morris, the USM-quoted property company struggling to reduce debts of £132m, has replaced Mr Irvine Sellar as chairman.

Mr Ronnie Aitken, who has been involved in a financial salvage operation at Courtney Pope Holdings, the shop fitter and engineer, will take over as FSM's non-executive chairman. He already held the deputy post.

Mr Sellar remains as chief executive, taking over the duties performed by Mr Tony Leyland, who has resigned to go to another company.

Just over a week ago FSM disclosed that it was discussing the rescheduling of its bank debts. Friday's news of the management shake-up was made after the stock market closed when FSM's share price stood at 18p, little more than a tenth of its 1989 high.

That was the year that FSM paid £84m for Brookmount, another property group. The deal was funded by a loan from Bankers Trust and the combined group's initial gearing was about 200 per cent.

With the help of disposals, £72m was cut from borrowings by last April, but they still stood at £113m. Nevertheless, pre-tax profit for the year increased to £25.4m (£14.2m).

When those results were announced in July, Mr Sellar said rental growth and the pre-letting of development properties augured well for the current year's results. But the six months to October 31 saw pre-tax profit fall from £12m to £5m following delays in completing developments.

Borrowings had risen to £132m by that date and the six-monthly interest costs were £7.1m with a further £1.7m capitalised. The interim dividend was passed.

Mr Aitken, who is regarded as a company doctor, has recently been involved in putting six subsidiaries of Courtney Pope into receivership to try to save the rest of the group.

Crown Comms debts to be cut by third

By Jane Fuller

Crown Communications, the USM-quoted broadcasting company which owns the LBC radio stations, will cut its debt by more than a third through the sale of a stake in Southern Radio and a compensation payment from British Sky Broadcasting.

The 24 per cent stake in Southern, which includes Ocean Sound in Hampshire and Southern Sound in Sussex, is to be sold for £3.8m (47.5p a share) to Lord Romsey. As he is a Crown director, the sale is subject to shareholders' consent.

Another £2.8m will come in by September from BSkyB to cover profits lost on the new programmes that Crown would have made for British Satellite Broadcasting had it stayed separate from Sky. The arrangement includes the recovery of an additional £1.2m in expenses.

The sale proceeds and the compensation should reduce Crown's £18m debt to less than £12m. But this is still short of Crown's target of halving its debt, which means that other radio investments may have to be sold. These include a 33 per cent stake in Radio Forth, which has been getting closer to Radio Clyde through their intended joint bid for the first independent national radio licence.

Microvitec makes £6.2m share offer for Logitek

By Michiyo Nakamoto

MICROVITEC, the USM-quoted computer peripherals manufacturer, has made a conditional £6.2m share offer for Logitek, the computer services group, in which it already holds an 8.41 per cent stake.

The offer values each Logitek share at 34p, compared with the Friday closing price of 28p, up 2p. Microvitec rose 1p to 19¼p.

The offer is subject to certain pre-conditions, one of which relates to the financial position of Logitek.

In January, Logitek announced that pre-tax profit for the six months ended September 30 1990 fell to £145,000 (£1.31m) following a provision for a customer dispute.

The interim dividend was passed and the interest bill of £691,000 was only narrowly covered by an operating profit of £836,000.

At the same time the resignation of Mr Michael Brooke, managing director, was announced, and the shares fell to 10p.

FKI sells Dutch offshoot for £11m

FKI, the electrical products and engineering group which demerged from Babcock International in August 1989, has sold its Dutch subsidiary for £11m cash, writes Jane Fuller.

The disposal of Spaans Babcock, which made £900,000 pre-tax profit in 1989-90, will help to reduce FKI's borrowings, which stood at £88m (gearing of 34 per cent) on September 30. The net assets being sold were valued at £9.8m.

Spaans, which makes Archimedes screw pumps, is being sold to Topic BV, a vehicle for Mr Wout van Bavel, Spaans's managing director, and institutional backers which include Troy Group and Citicorp Venture Capital.

Inoco losses more than double to £6m

Inoco, the oil and property development company, saw its pre-tax loss more than double to £6.1m in 1990.

The decline, from a loss of £2.7m in 1989, followed a near 50 per cent increase in interest charges to £10.3m.

For the second year running, no dividend is proposed. Loss per share came to 2.79p (1.8p).

An exceptional provision of £1.8m was made against Forth Investments, formerly Edinburgh Hibernian, which includes the football club.

In December, bank borrowings totalled £74m, giving gearing of 108 per cent. Part of the £4m undrawn facilities have been negotiated since the year-end.

Row looming over Trade Indemnity rate rises

By Richard Lapper

TRADE INDEMNITY, the country's biggest trade credit insurer, could become embroiled in a row with specialist credit insurance brokers following its recent decisions to raise premiums and reduce commission rates paid to intermediaries.

TI, which recently reported record pre-tax losses, says that it took the decision to increase premium rates by an average of 40 per cent "with its eyes open". But according to one leading trade credit insurance broker TI runs the risk of losing business to European companies who have recently entered the UK market.

TI said the premium increases are necessary following a sharp rise in reported claims. In some sectors companies could face increases of well over 40 per cent.

Currently a company could typically pay a premium of about 4 per cent of its turnover (depending on the company's business and record).

But Mr Bryan Squibb, marketing director of the Credit Insurance Association, an independent broker specialising in credit insurance, believes that "the market will not stand" for the rate hikes.

He said that Hermes Kreditversicherungs, the German company, and Nederlandsche Credietverzekering Maatschappij nv (NCM), of the Netherlands, in particular, have been seeking business in the UK.

NCM is reported to have set up policies for about 100 British companies during 1990.

Since none of the newcomers have exposure in the UK they have escaped the underwriting losses which forced TI to make provisions of £40m for potential losses arising on its 1989 and 1990 business.

TI said that it was experiencing "very little resistance" to the premium increases it was seeking. Mr Charles McCartan, associate director, said that he believed continental companies were not prepared to come into the UK market on a "cost-cutting basis".

TI said that broker protests are influenced by the decision last week to reduce brokerage commissions paid to them from an average of 20 per cent to 16 per cent.

Putting together the jigsaw

Raymond Snoddy examines the TVS franchise bid

MR RUDOLPH Agnew, the recantly appointed chairman of TVS Entertainment, is used to big numbers and large risks. As former chairman of Consolidated Gold Fields, the British based mining company, he survived a hostile bid from Minorco before succumbing in 1989 to Lord Hanson and a £3.3bn offer.

Yet Mr Agnew believes he is now facing his most intriguing business problem ever – bidding for an ITV franchise.

"It's like trying to do a jigsaw without a picture and without any edges," says Mr Agnew who is a lover of jigsaws.

Even after half a lifetime coping with assessing complex risks in the international mining business, he is scratching his head at the bizarre nature of the competitive tenders the Government has created and the totally contradictory aims of quality and highest bids.

"It's a monetary aystem imposed on a Gaitskell/Butler concept of responsible television," he says.

The Agnew jigsaw is, however, more complicated than that of any of the other applicants who must submit their bids to the Independent Television Commission by May 15.

He was put in as chairman of TVS in December on the advice of H.Schroder Wagg, acting on behalf of shareholders. The task was to try to turn a company that was everyona's favourite loser into one capable of retaining its lucrative south of England franchise. The central problem was the $320m purchase in 1988 of MTM, the US production company.

The ambitious move into Hollywood by the TVS founder, Mr James Gatward, turned into a millstone round the company's neck and dragged its share price dangerously downward – from 340p in 1988 to 60p last year. Mr Gatward resigned in February.

Mr Agnew's main priority now is to sell MTM and do so before May 15, so that TVS can put in a "clean" bid without unresolved financial questions.

"If we can do it at all we can do it by then," Mr Agnew says. The Walt Disney Company made an offer but it was unacceptably low. Now five companies are doing due diligence. The company that cost $320m is likely to go for something in the region of $100m.

The selling of MTM is part of a process of taking TVS back to its origins as an ITV contractor. Another piece of the jigsaw was to ensure that the company "was no longer dominated by one man" and to put together an executive team to bid for the franchise.

The next piece of the jigsaw involves ensuring that TVS goes into the bidding with a realistic cost structure capable of seeing off rivals.

This will involve further job cuts although no final numbers have been decided. A debate is still continuing in the company about how great the future commitment to making programmes for the national network should be in addition to its regional programmes.

It is likely however that the staffing levels for a new franchise beginning in 1993 would be around 500-600 rather than the present 800-900.

Mr Agnew believes that TVS has served its region well and that the preparations for the bid are going extremely well.

Bnt as the chairman of a public company there are other problems and uncertainties for him to consider when putting in the bid. How much of the future profits of the company should go to shareholders and how much to the Treasury in the form of the bid. And what if someone else bids £4m more.

"Is Mammon or God going to win this ?" Mr Agnew asks.

The uncertainty will remain until the envelopes are opened at the ITC but Mr Agnew believes tha TVS has moved from being a likely loser to having a very good chance of regaining its franchise.

TVS has moved from 10-1 against to "evens" says Mr Agnew, who is skilled at risk and reward assessment on horses as well as mining companies.

Rudolph Agnew: used to large risks

Tisch family is Saatchi underwriter

The wealthy Tisch family of New York is one of the underwriters of Saatchi & Saatchi's rights issue, writes Maggie Urry.

The advertising group could find that after the rights issue as much as 2.6 per cent of its shares could end up in the Tisch family's hands.

Mr Lawrence Tisch, who is chief executive officer of CBS, and his brother Mr Preston Tisch and their associates, are underwriting £4.1m of the £55m rights issue.

They are involved as co-investors to ESL Partners, a Dallas-based investmant gronp, along with a number of others. ESL is underwriting £4.8m of the issue and the co-investors, including the Tisch family, are underwriting £12.7m.

The leading underwriters are SG Warburg and J Rothschild Holdings. The latter took on £16m and the former has a £21.5m commitment, most of which has been sub-underwritten.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Otto-Versand (Germany)	Grattan (UK)	Mail Order	£151m	Next backs improved offer
Lonrho	Harpener (Germany)	Industrial holding company	£91m	19.95% stake sought
Hammond Kennedy Whitney (US)	Globe Data Systems (US)	Printing	£3.8m	UK's Ferguson International the seller
Beloit Corporation (US)	Fabryka Maszyn Papierniczych Fampa (Poland)	Pulp & paper machinery	£3.7m	First Polish privatisation by trade sale
Melville Group (UK)	Dispose (France)	Exhibition stands	£3.1m	Melville buys 50 per cent + option for rest
Gillette (US)/Leninets (Soviet Union)	Joint Venture	Shaving products	n/a	G's Soviet manufacturing debut
Volkswagen (Germany)/ BAZ (Czechoslovakia)	Joint Venture	Car assembly	£20m	VW's second Czech JV
Cantieri Posillipo (Italy)	Olympic Marine (Greece)	Ship Building	£2.9m	First x-border privatisation
Accor (France)	Regal Inns + Chalet Suisse (both US)	Motels	£55m	Further US growth for Accor
Woolwich Building Society (UK)	Banque Immobiliere de Crédit (France)	Mortgage finance	n/a	Another Midland non-core disposal

Source: FT Mergers & Acquisitions International

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 10.03.91 / Final Prices for Trading on 10.02.91

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	15.78	13.37	13.37
0100	23.20	24.09	25.59
0130	24.54	24.08	25.58
0200	24.34	24.09	25.66
0230	23.36	23.00	24.46
0300	17.13	18.75	20.18
0330	16.97	18.75	20.18
0400	15.24	15.59	16.92
0430	15.01	15.69	16.02
0500	14.76	15.59	16.92
0530	14.81	15.65	16.97
0600	14.74	15.65	16.98
0630	14.71	15.65	16.96
0700	14.71	13.39	13.39
0730	14.71	13.39	13.39
0800	14.74	13.39	13.39
0830	14.74	13.32	13.32
0900	14.76	13.39	13.39
0930	15.17	13.39	13.39
1000	17.02	16.65	17.00
1030	17.02	18.49	17.87
1100	17.96	20.41	21.06
1130	17.98	23.00	24.55
1200	21.37	25.29	26.90
1230	24.21	25.29	26.89
1300	24.21	25.29	26.88
1330	24.21	21.45	22.93
1400	24.21	19.27	20.71
1430	16.22	17.03	16.42
1500	15.01	13.40	13.40
1530	14.86	13.39	13.39
1600	14.81	13.40	13.40
1630	14.86	13.40	13.40
1700	15.01	13.69	13.69
1730	15.02	21.76	23.29
1800	17.97	25.23	26.83
1830	22.91	25.23	26.80
1900	24.21	25.23	26.80
1930	24.22	25.23	26.79
2000	24.22	21.76	23.25
2030	24.21	21.45	22.97
2100	21.22	19.47	20.95
2130	21.22	19.47	20.95
2200	16.92	19.21	20.67
2230	17.98	14.87	16.97
2300	16.64	14.87	14.47
2330	18.32	13.40	13.40
2400	14.88	13.37	13.37

[illegible] becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 11.03.91 / Final Prices for Trading on 11.02.91

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	15.66	13.69	13.69
0100	21.08	18.86	20.46
0130	24.22	22.47	24.36
0200	24.22	22.47	24.33
0230	24.21	19.06	20.88
0300	24.21	18.25	21.05
0330	16.64	18.25	21.08
0400	15.06	18.06	20.80
0430	14.86	13.53	15.33
0500	14.81	13.54	13.54
0530	14.76	13.46	15.46
0600	14.76	14.00	14.00
0630	15.22	19.26	19.36
0700	18.18	22.63	24.90
0730	18.46	25.42	27.37
0800	18.86	25.42	27.39
0830	18.86	25.42	27.48
0900	18.76	25.77	27.68
0930	19.42	25.77	27.73
1000	21.02	25.85	27.74
1030	21.02	25.77	27.81
1100	20.57	25.72	27.80
1130	18.63	25.77	27.65
1200	21.02	38.51	40.48
1230	21.02	38.84	40.32
1300	21.02	38.84	40.25
1330	19.82	25.45	27.35
1400	18.63	25.45	27.32
1430	18.76	25.45	27.31
1500	18.63	25.43	27.31
1530	18.63	25.41	27.33
1600	19.76	25.35	27.27
1630	18.76	25.35	27.23
1700	19.82	27.44	29.43
1730	21.76	29.21	31.22
1800	21.76	34.76	37.23
1830	21.76	35.19	37.06
1900	20.16	33.19	35.40
1930	20.16	30.30	32.24
2000	19.76	29.90	31.85
2030	19.76	26.91	28.79
2100	21.76	26.86	28.83
2130	18.49	26.96	28.87
2200	18.49	23.00	28.20
2230	18.91	22.93	24.86
2300	13.71	19.51	21.19
2330	14.76	13.49	13.40
2400	14.76	13.37	13.37

[illegible] becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

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COMPANIES AND FINANCE

Generator in debt exchange programme

By George Graham in Paris

ELECTRICITE de France (EDF), the French state power generator, has launched a restructuring programme on its FFr226bn ($43.17m) of outstanding debt.

EDF is offering a new 10-year bond, whose yield will be fixed at 47 basis points above a reference French government bond, in exchange for 19 of its existing lines representing a total of FFr28bn.

The operation, led by the Caisse des Dépôts, is expected to be the largest in a recent series of similar debt exchange programmes. EDF had already launched an exchange offer on its Ecu-denominated debt last year, and other large French borrowers such as the Caisse Nationale des Télécommunications (CNT), have recently followed suit on their French franc debt.

EDF is hoping the offer will result in the creation of a new FFr8bn to FFr10bn bond tranche which will be considerably more liquid, and therefore cheaper, than the multitude of little-traded issues it will replace. The operation will also extend the average maturity of EDF's debt which at the moment is less than six years.

The utility has undertaken to cut its outstanding debt to under FFr212bn by 1992, and aims to take advantage of a lower rate of power station building in the 1990s to cut its debt to between FFr70bn and 80bn by the year 2005.

United Bus plans Fl 85m issue

By Kevin Done, Motor Industry Correspondent

UNITED BUS, the majority-owned bus and coach subsidiary of DAF, the Dutch commercial vehicle maker, is planning a private share issue totalling around Fl 85m ($49m).

As a result of the issue some 60 per cent of the United Bus equity will be floated off chiefly to institutional investors and investment companies, said Mr Wolf Lijmer, managing director.

DAF, which currently holds 56 per cent of the United Bus equity, would reduce its stake to around 35 per cent, with part of its subsidiary loans to the company being converted into equity, he said.

United Bus is considering the possibility of seeking a listing on the Amsterdam stock exchange in order to meets its future financing requirements.

The company was formed at the end of 1989 through the merger of DAF's bus and coach operations with BOVA, a rival Dutch bus maker.

The aim was to form an international group of bus and coach makers through further acquisitions. The group currently consists of DAF Bus, BOVA and Den Oudsten in the Netherlands, Optare in the UK and DAB in Denmark.

DAF said that discussions were under way with the Dutch National Investeringsbank and RABO Merchant Bank for the planned share issue to be made jointly through the two banks.

Last year the group produced 1,700 built-up chassis and kits through DAF Bus, 600 complete buses through DAB and BOVA, and 550 bus bodies through Optare and Den Oudsten.

The original merger of DAF's bus operations with BOVA was prompted by a joint strategy review by the two companies of the bus and coach industry in Europe and in international markets. The two groups expected demand for road passenger transport to increase in Europe in the wake of the creation of a single European market.

They believed, however, that few commercial vehicle makers had succeeded in running profitable bus operations and that the businesses would be better managed in an independent company.

Even after the last acquisitions United Bus is still overshadowed by the leaders in the European bus industry, Daimler-Benz of Germany, Volvo of Sweden, which includes the Leyland bus operations in the UK, and Scania of Sweden.

Cavendish up 29% to HK$1.3bn

By John Elliott in Hong Kong

CAVENDISH International Holdings, a property to energy subsidiary of Mr Li Ka-shing's Hutchison Whampoa empire, last night announced a 29 per cent increase to HK$1.32bn (US$169m) in after-tax consolidated profits for 1990, compared with HK$1.02bn in 1989.

The main contribution to the results came from associated companies which provided profits 30 per cent up at HK$1.27bn. There was an extraordinary income of HK$147m stemming from the disposal last July of the Hutchison group's 4.82 stake in Cable and Wireless of the UK.

Cavendish's own turnover was only marginally higher at HK$664.1m compared with HK$662.4m in 1989, and operating profit was only 5.3 per cent up at HK$180.4m.

Early last month Hutchison Whampoa announced a HK$4.13bn bid to take Cavendish private and make it a wholly owned subsidiary by offering to buy the 34.72 per cent of the company's shares which it does not already own for HK$4.10 in cash. This valued the whole of Cavendish at around HK$11.9bn.

Simon Murray: property income might be reduced

Mr Simon Murray, Cavendish's chairman and managing director of Hutchison, said yesterday that Cavendish's property income might be reduced following completion of a big development in Hong Kong called Belvedere Gardens. Its wholly owned Hong Kong Hilton Hotel had reported reduced profits because of weakness in the colony's tourism industry.

Cavendish's main asset is a 34.3 per cent stake in Hong-Kong Electric, the monopoly supplier of electricity to Hong Kong Island, which last week announced year-end profits 12.7 per cent up at HK$1.95bn, after tax and transfers to a government scheme of control.

It also shares with Hutchison (on a 50-50 basis) a 43 per cent stake in Husky Oil, one of Canada's top ten petroleum companies, whose overall financial performance had been "disappointing".

A final dividend will be proposed later if the buy-out proposal is turned down. The total for last year was 21 cents.

Capital & Counties in placing

By Tracy Corrigan

CAPITAL & Counties, the UK property group, has placed an £80m issue of secured loan stock in the UK market. The 11¾ per cent debentures due 2021 yield 1.65 per cent more than the Treasury's 2008 gilt.

The debentures are secured on a portfolio of properties, valued at 1.675 times the nominal amount of the issue. Interest due on the issue is covered 1.08 times by the estimated net annual rents receivable from the mortgaged property.

Credit-conscious institutional investors are showing a preference for debt which is backed by a company's saleable assets. Consequently, companies with suitable assets can reduce their funding costs or access markets which might otherwise be closed to them, by issuing secured debt.

Other UK property companies are likely to look more closely at this type of secured fixed-rate financing, now that interest rates are coming down.

Henry Schroder Wagg arranged the placing, with Barclays de Zoete Wedd as broker. The proceeds of the issue will be used to finance property investment and development.

Japanese group in environmental deal with ACRC

By Stewart Fleming

MITSUBISHI Corporation, one of the leading Japanese trading houses, has reached an agreement with American Capital Research Corporation (ACRC) of the US to co-operate in the international financing and marketing of environmental projects.

ACRC, provider of environmental and engineering services, says the agreement represents the first such link.

Mr Doug McMinn, executive vice-prasident for ACRC, which has annual revenues of $580m, says the agreement will help the company develop its business internationally through Mitsubishi's 172 offices and to break into the Japanese market.

The two companies say they will pursue projects in areas including waste water and water supply, urban air pollution and hazardous and solid waste management.

Placer terminates Eskay talks

By Robert Gibbens in Montreal

PLACER DOME, Canada's largest gold producer, has terminated talks with Corona on future ownership of the Eskay Creek gold deposit in north-western British Columbia.

Placer wants to increase its 23 per cent indirect interest in the property and take over management of the mining at Eskay which has an estimated value of C$750m (US$650m) over six years.

Corona, a northern Ontario gold producer, with associates controls Eskay.

Mr Fraser Fell, Placer chairman, said "terminated" meant "no agreement has been reached and all issues remain unresolved". He would not hint at Placer's next move, but confirmed that Placer has built up a shareholding of less than 3 per cent in Corona.

Eskay mine construction could be delayed for two years by claims disputes. One of these is now before the British Columbia supreme court. At present, Eskay is due to go into production in 1994-95.

Mr Fell said Placer will complete a mine feasibility study for the big Mount Milligan gold-copper property in north-western British Columbia in the third quarter, and production could start in 1993.

Placer paid C$250m for the property last year, and has since added another smaller exploration property in the same area for C$12m.

He said that overall Placer's net gold production, including Porgera in Papua New Guinea, will be 1.5m ounces in 1991 and 1.6m ounces in 1992.

Lower costs at the newer mines are offsetting marginal operations, such as the Dome and Campbell mines in eastern Canada. These latter mines still have a life of ten years or more at present prices.

Placer's average total cost, including depreciation last year, was US$306 an ounce against US$299 in 1989.

Placer has C$910m cash, and can respond quickly to mining acquisition opportunities, especially in a weak global economy, said Mr Fell, but it will not follow Rio Algom in making a large dividend payout for lack of large acquisition opportunities.

But "we are not interested in Newmont Mining, even if the control block comes up for sale," he said. Placer wants to expand in Nevada – where it is represented by one small gold producer – possibly by acquisition.

Within a few years, Placer expects 60 per cent of revenue to come from gold and precious metals and 40 per cent from base metals, and its exploration budget is already geared in that way, said Mr Fell.

ESFH plans to raise funds for bank sell-off

By David Lascelles, Banking Editor

ESPIRITO Santo Financial Holding, the Luxembourg-based financial group, plans to make an issue of convertible stock in order to raise funds to be able to participate in Portugal's bank privatisation programme.

ESFH was built up by the Espirito Santo family after their banking interests in Portugal were nationalised by the socialist government in the 1970s.

The proceeds of the issue will be used to acquire a stake in Banco Espirito Santo which is due for privatisation in the next two or three months. The Portuguese government has said it will sell the bank off in tranches, starting with 40 per cent. The total market value of the bank is expected to be around $1bn.

India's credit rating cut to lowest investment grade

By Stephen Fidler, Euromarkets Correspondent

INDIA'S credit rating has been downgraded by Standard & Poor's, the US rating agency, to the lowest investment grade.

The country's debt is also being placed on the company's Creditwatch list, which suggests the strong possibility of a further downgrading.

The agency cited both economic and political factors in its decision. After the collapse of two governments in 15 months and the resignation of the prime minister, Mr Chandra Shekhar, it says political uncertainty will continue until at least after the general election.

India's large current account deficits of recent years have grown in the midst of the Gulf crisis, because of the rise in its oil bill and a sharp drop in remittances from the region.

It said a second International Monetary Fund loan, expected this year, would be crucial, in particular in securing support from other creditors, and it would monitor the progress of this loan, which depends in part on the government's ability to cut its fiscal deficit significantly.

● Standard & Poor's has downgraded Texas Instruments' senior debt to single-A from A-plus, subordinated debt to A-minus from single-A, and preferred stock to BBB-plus from A-plus, Reuter reports from New York.

The company has about $1.1bn of rated long-term debt and preferred stock outstanding. S&P said the downgrades reflect the erosion in profitability that the company has recently experienced arising from weak semiconductor and defence industry conditions and S&P's expectations that pressures will increase.

Utd Westburne profits plummet

By Robert Gibbens

UNITED Westburne, the North American plumbing, heating and electrical wholesaler controlled by Dumez of France, reports a sharp setback in profits for 1990.

Following a 3.4 per cent fall in revenues to C$2.5bn (US$2.16bn) due to the recession and construction strikes, earnings were C$18.1m or 49 cents a share, down more than 50 per cent from $40.1m or $1.28 a share in 1989.

During the year Westburne paid $36m to buy four wholesalers mainly in the north central US, but it also entered the New York State electrical goods market.

Westburne now operate across Canada and in 18 states, with a total of 485 branches. Dumez, now part of Lyonnaise des Eaux, increased its construction interests in Canada by acquiring a second Montreal area company this week.

1991 M.P. No. 81

IN THE SUPREME COURT OF HONG KONG

HIGH COURT

MISCELLANEOUS PROCEEDINGS

IN THE MATTER OF

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED

and

IN THE MATTER of the Companies Ordinance (Chapter 32)

NOTICE IS HEREBY GIVEN that a Petition was on the 4th day of March 1991 presented to the Supreme Court of Hong Kong for the sanctioning of a Scheme of Arrangement (the "Scheme") dated the 1st day of February 1991 between The Hongkong and Shanghai Banking Corporation Limited and the holders of its shares of HK$2.50 each, which Scheme was approved by shareholders at a meeting convened by direction of the Court and held on 26th February 1991.

AND NOTICE IS FURTHER GIVEN that the said Petition is appointed to be heard before the Honourable Mr. Justice Jones at the Supreme Court, No. 38 Queensway, Hong Kong on the 26th day of March 1991 at 9.15 a.m.

A copy of the said Petition will be furnished to any shareholder requiring the same by the under-mentioned Solicitors.

DATED the 11th day of March 1991.

Norton Rose
in association with
Johnson Stokes & Master
17th Floor, Prince's Building
10 Chater Road
Hong Kong
Solicitors for The Hongkong and Shanghai Banking Corporation Limited

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Rates cut thoughts unsettle market

WITH many expecting a further cnt in interest rates before next week's Budget, the gilt market had an unsure look about it over the past few days.

Yields decreased during last week, reversing the npward movement the week before, but the eccompenying prlce increases bore bittle relation to the more vigorous weekly price rises earlier in the year.

The price shifts failed to change the view of many market participants thet the big rally in the market since last summer may be on the point of running out of steam.

The Treasury 9 per cent bond meturing in 2008 was quoted on Friday night at 93⅝, up about half e point oo the week. Its yield was 9.80 per cent, as against 9.87 per cent the week before.

Roughly the same shift in price was seen for the shorter-duration Treasury 10 per cent security maturing io 1994, which closed on Friday et 99⅞. Its yield over the week was pushed down to 10.1 per cent from 10.26 per cent.

Reflecting the mood of uncertainty in the market, gilt traders were unsure how to react to the Conservative Party's defeat in tbe Ribble Valley by-election last Thursday.

While some took this as damaging the government's hopes of winning the next general election, in an outcome which would probably have negative implications for gilts, others shrugged off the loss as a one-off protest vote against the poll tax.

Closely tied up with political considerations is the likely timetable for interest rate cuts. After two reductions in the past month, hringing base rates to 13 per cent, the government will want to loosen borrowing conditions still further by the summer to boost economic growth, and at the same time its chances of electoral victory.

A quick-fire sequence of interest-rate cuts over the next few months will probably bring down yields at the short end of the gilt curve, with yields for looger-duratioo securltles likely to go up slightly – especially bearing in mind the way the expected rush of new gilt issues in the next year is likely to depress trading conditions.

Besldes the preoccupation with the likely pattern for borrowing conditions in the near future, other questions for the gilt market include:

● Whether the recession is close to bottoming out. Evidence that this is the case is almost totally anecdotal; many in the gilt market are sceptical. Publication this week of a raft of economic data – including the latest figures on employment, credit and prodncer prices – will shed more light on the issue. From the point of view of gilt investors, the most favourable outcome would be a long, relatively slow upturn in the economic cycle in which the chances of inflationary conditions being allowed to gain hold are minimised.

● The stock market rally. London share prices increased by nearly 3 per cent last week, largely due to optimism about an economic recovery in both the US and the UK. Assuming this triggered a fresh bout of inflation, this might be bad news for gilts. However, some believe that the stock market may be running away with itself. "The recovery may be further awey than people think," said Mr Richard Kersley, an analyst at Barclays de Zoete Wedd.

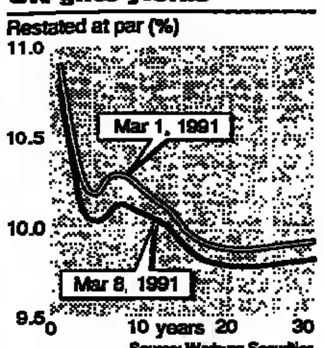
● ERM credibility. Any slippage by the pound in the mechanism in the next few mooths could damage the gilt market, by reducing the appetite of foreign investors for sterling securities.

According to Mr Peter Spencer, UK economist at Shearson Lehman Brothers, the foreign exchange market will be watching for signs of reduced wage rises to see if the ERM discipline is sticking. "If the trend goes the other way, there is e danger thet the whole theory of ERM credibility starts to unravel," he said.

Peter Marsh

UK gilts yields

Restated at par (%)



Source: Warburg Securities

SPANISH GOVERNMENT BONDS

Foreign buyers quadruple holdings

THE performance of Spanish government bonds has been remarkable this year. The yield on the benchmark 13.45 per cent government bond maturing 1996 has fallen by a full 1 percentege point since the beginning of February.

The yield spread over five-year French government bonds has falleo from from 4.25 percentage points to 4.00 over the same period.

In addition to expectations of lower interest rates common to many Enropean markets, Spanish government bonds have benefited from concerted buying by international investors. Foreign holdings of Spanish treasury paper quadrupled to Pta1,100bn last year.

On December 31, the Bank of Spain removed the 25 per cent withholding tax paid on foreign purchases of bonds. Moreover, regular monthly bond anctions at the three-year and five-year maturities have improved liquidity.

Yields on Spanish government bonds are the highest within the main European markets except for those of Italy, where withholding tax pushes the income for international investors below the Spanish level.

Overseas bnying has been concentrated at the most liquid five-year maturity and at longer maturities when paper is available. This trend may cootinue, resulting in lower yields at the longer end and an increasingly inverse yield curve.

However, the great imponderable for the market is when the Bank of Spain will sanction a further easing of monetary conditions. Some analysts expect a lowering of interest rates this week, forced by the peseta's strength at the top of the European exchange rate mechanism.

But inflation remains stubbornly high at 6.7 per cent in the year to January, against an average rate of 6.5 per cent in 1990 and 6.8 per cent in 1989.

The Bank of Spain cut its intervention rate by 20 basis points last month. However, Mr Mario Rnbio, governor of the Bank of Spain, may delay any really aggressive easing of monetary conditions until the second half of the year – if inflation numbers allow.

However, the strength of the Spanish currency may force a softening of monetary conditions sooner rather than later. Consumer price index dsta for February, released on Thursday, may provide the spur.

The strength of the peseta has been a further attraction of Spanish government bonds to overseas investors. The currency has been near the top of its 6 per cent divergence band since it joined the ERM in June 1989.

Buying of Spanish bonds by overseas investors has added to the strength of the peseta. This has not always pleased a government anxious to keep interest rates relatively high.

Indeed, the booming matador bond market (issues of peseta bonds by overseas borrowers) was closed by the Spanish authorities in July last year for two months to prevent the peseta from appreciating further.

Historically, Spain has been more isolated than most other European countries from inflows of portfolio capital. Yet by 1989, the last year for which full figures are available, net inflows into Spain amounted to just under 2 per cent of gross domestic prodnct. This was roughly the same percentage as Germany and compares with inflows of 3 per cent of GDP for France and nearly 4 per cent for the Netherlands.

Simon London

US MONEY AND CREDIT

Wall St looks beyond the horizon

AMERICANS are eternal optimists. And American investors, at least in equities, appear to be discounting far more good news than can be seen on the immediate horizon.

The current surge towards a Dow Jones level of 3,000 discounts a very early recovery from recession indeed. Much of the thinking on Wall Street revolves around the notion that a post-war rebound in consumer confidence can on its own bring the US economy out of the doldrums.

The bond market, by contrast, is in a state of high confusion. Treasury bond prices swung wildly on Friday as the Fed moved to ease interest rates in the wake of much worse than expected February unemployment data.

The 30-year benchmark bond at first surged on the poor jobs data and then crashed back nearly a point to close at 95⅞, making for a yield of 8.30 per cent, which compared with 8.27 per cent a week earlier.

The jobs figures showed the biggest monthly rise in unemployment since 1986 – an increase from 6.2 per cent to 6.5 per cent. A year ago the US unemployment level stood at 5.3 per cent. There are now 8.2m Americans without jobs and no economist or government forecaster can say with certainty that the ranks of the unemployed will not swell further in the months to come.

Mr Robert Brusca, chief economist at Nikko Securities, said: "The February employment report should hit those with optimistic economic expectations like a punch between the eyes from Mike Tyson. The reality is that reality's grim."

The Fed's signalling of a quarter point cut in the Fed funds rate – to 6 per cent – was the second such move in two months. The last time the Fed acted was also immediately after poor jobs figures were released.

As a result of technical difficulties we are unable to publish the table of US money market rates and bond prices and yields. We apologise to our readers.

Mr Alan Greenspan, the Fed chairman, continued last week his policy of going before Congress and making cautiously optimistic statements. "Certainly," Mr Greenspan said, "the successful end to the hostilities in the Gulf has removed a troublesome uncertainty and should provide some lift to consumer and business confidence."

Mr Greenspan and several officials of the Bush administration – perhaps quite reasonably from their point of view – have been trying to talk up the US economy. Their line is that the economy has "bottomed out" and that recovery is just around the corner.

The most overtly political of last week's economic forecasts came from Mr Robert Mosbacher, the commerce secretary, who purported to see "a very good chance that the president's tremendous popularity will translate into a boost in consumer confidence."

But things are often not so simple. Mr Greenspan did insert an important caveat into his congressional testimony, noting he remains concerned about the credit crunch and real estate problems. But market optimists preferred data such as the University of Michigan's tracking of improved consumer confidence.

Consumer confidence is only one of several factors that go into the equation. The reality, as seen by several economists including Mr David Hale of Kemper Securities, is that far from an immediate recovery, the US economy is only just entering the third phase of a complex recession – the downturn in capital spending phase.

The three-phase analysis goes like this: The first phase was a slow-motion erosion in commercial real estate values and construction that began more than a year ago and speeded up last summer.

Phase Two, from last autumn, was a very severe downturn in consumer spending that Mr Hale terms "one of the most significant downturns in post-war history".

Phase Three, based on a weak manufacturing sector, will see a meaningful downturn in capital spending that could continue for the next three to six months.

The optimists – and there are many of them – reckon on a recovery from recession that would begin as early as the second quarter of 1991.

The more realistic view, shared by some very influential insiders in the Federal Reserve system, is that the US economy will have suffered a 3 to 4 per cent drop in growth in the first quarter, to be followed by a drop of up to 1 per cent in the second quarter and a flat to mildly positive third quarter.

If the three-phase analysis is accurate then the equity market is overbought and the bond market should expect a string of Fed moves to ease rates further in coming months.

Alan Friedman

NRI TOKYO BOND INDEX

December 1983 = 100	7/3/91	Average yield† (%)	Last week	12 wks ago	26 wks ago
Overall	153.41	6.99	154.31	150.39	142.93
Government Bonds	151.11	6.84	152.26	147.80	138.98
Municipal Bonds	155.65	7.03	156.85	152.75	143.78
Govt.-guaranteed Bonds	158.22	7.13	159.34	155.12	147.01
Bank Debentures	150.43	7.03	151.04	147.53	140.51
Corporate Bonds	156.50	7.27	157.15	152.86	146.41
Yen-denom. Foreign Bonds	154.30	7.58	155.35	150.77	152.06
Government 10-year†		6.62	6.45	6.66	7.67

† Estimated par yield

Source: Nomura Research Institute

FT/AIBD INTERNATIONAL BOND SERVICE

[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn=current coupon. CONVERTIBLE BONDS: US Dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant on yld = exercise yield at current warrant price.

Closing prices on March 8

هكذا من الاصل

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LENDING

Saudis baulk at 'negative pledges'

A $3.5BN loan for Saudi Arabia, being raised from more than a dozen banks led by J. P. Morgan, is still awaiting signature. The lending group was together by the middle of last month, but one reason the three-year credit has yet to be completed, according to those familiar with the transaction, is that the Saudis are baulking at some of the clauses attached to the loan's legal documentation.

The Saudis are new to international borrowing and they are especially sensitive to it because of their concerns, based on the Islamic proscription against usury, about paying interest. However, there are other issues that bankers and lawyers say are likely to worry them.

On the face of it, the restrictions banks usually attach to such loans might be seen as a significant constraint on the freedom of action of a sovereign government. Perhaps the most troublesome are the so-called "negative pledge" clauses, which stop borrowers from pledging their assets to others.

This could, for example, limit the right of a state airline to borrow against the collateral of its aircraft or the government to borrow using future oil deliveries as security.

Banks almost always insist these days on being specifically permitted to transfer their loans to other banks. The Saudis could want some say over where these loans may be sold.

They may also be bothered by the customary default clauses. These can be long and specific, and open up the possibility of cross defaults on other borrowings, should the Saudis, as expected, borrow more.

Scepticism about these clauses is being expressed by lenders too. One gloomy banker was last week suggesting his carefully worded loan agreements with Iraq were barely worth the paper they were written on. In fact, banks have rarely pursued sovereign borrowers to rectify default, as the third world debt crisis has shown.

So what is the point of these elaborate documents, apart from helping to keep armies of lawyers in luxury? Lawyers make the following points: banks, particularly in the US, are subject to close internal audits.

Tight loan documentation is needed to pass this test. Furthermore, even though difficult to enforce, loan agreements provide banks with a stronger negotiating hand when it comes to acts of default. It also protects banks against other banks – preventing the settlement of claims by one bank over those of others in its syndicate, and providing protection to one lending syndicate against others.

● Amoco Exploration is raising up to $650m over 10 years through Barclays Bank and National Westminster. The funds are being raised on a "best efforts" basis and the loan is not underwritten. The credit, to refinance existing loans and to finance UK oil exploration, carries an interest margin over interbank rates of 45 basis points, rising to 50 after three years, and 60 after seven years. Commitment fees rise from 20 to 25 to 30 basis points.

The US sports shoes manufacturer, Reebok, is raising up to $400m from international banks. The revolving credit is fully underwritten by Crédit Suisse and Credit Suisse First Boston. It has a four-year maturity, with an average life of about 2½ years. Interest margins, depending on debt-to-capitalisation ratios, range from 50 basis points to 200. The funds are to buy back a stake in the company from the UK's Pentland Group.

Stephen Fidler

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	2,688.3	150.0	200.0	11,923.7
Prev	1,995.0	0.0	305.0	16,639.2
Other	7,829.0	0.0	158.9	10,811.7
Prev	4,850.0	0.0	1,147.1	9,051.6
Secondary Market				
US$	28,812.5	1,159.7	7,541.0	7,741.2
Prev	22,799.3	696.7	6,848.5	9,164.2
Other	54,173.7	1,056.2	5,191.1	66,494.4
Prev	53,388.4	1,340.0	5,256.1	88,453.5

	Cedel	Euroclear	Total
US$	21,838.8	38,377.6	60,216.4
Prev	19,486.3	38,961.6	58,447.9
Other	62,678.9	82,036.9	144,715.8
Prev	66,265.2	97,221.5	163,486.7

Week to MARCH 7 1991 Source: AIBD

INTERNATIONAL EQUITIES

Europeans make aggressive approaches to US

EUROPEAN investors have regained their appetite for US equity. As the US stock market reached record highs last week, cash-rich international investors were at last forced off the fence.

Many European fund managers, who may have missed the initial rally, are now buying US stocks quite aggressively, taking the view that the bull run in US equities still has some way to go. With pent-up demand among US companies seeking to issue equity, a growing supply of US shares is on its way to Europe.

There is a strong trend for US equity offerings to include international tranches, reserved for distribution outside the US and Canada.

Although roadshows in Europe increase costs for issuers, many companies feel that international distribution can establish a useful buffer for tougher markets.

Bankers say that the specific allocation of shares in an international tranche, with an international syndicate, is the best way of focusing attention on European distribution. But some nominally domestic US deals have also been partly placed in Europe and the Far East.

This marks a stark contrast with the last six months of 1990, when there was only sporadic placement of US equity in Europe, and several deals had to be cancelled due to lack of investor demand.

"Asset allocation for the US hit a real low last year," said one banker. "That is changing now."

The main incentive seems to be that the dollar is widely perceived to have hit its lows, and to be set to appreciate against European currencies. "Last year, an investor could get the stock right and lose 15 per cent or 20 per cent on the currency," one banker observed.

There is also a widespread perception that the economic cycle is turning, and it is time to shift from boods and money markets into equities, a trend led by the US market.

Accordingly, there has been a broadening of interest away from defensive stocks. While economic recession was expected to endure, institutions concentrated on recession-proof stocks like utilities and food. But they are now focusing on cyclical stocks, which produce better returns in a bull market. However, investors are still rather cautious about perceived problem areas like the US banking sector.

"Some deals have gone better than others," said an official at Credit Suisse First Boston. "This is not an environment where the fish are feeding and they will eat anything."

Over the past five years, the trend among large companies has been, if anything, to buy back their own shares, rather than to issue new stock. The limited range of share offerings to emerge was mostly for small companies, little known in Europe. Now the renewed presence of large US companies, which European investors are familiar with, is boosting European interest in the market.

Further, some companies which were taken private through management buy-outs in the 1980s are now going public again. An example is vehicle parts supplier Autozone, subject of a buy-out arranged by Kohlberg Kravis Roberts. It is to issue 3.25m shares worth approximately $60m, via Goldman Sachs, with a $12m international tranche.

Meanwhile, a range of new offerings is in the works. Chili's, a US chain of 172 restaurants, is preparing an offering of 1.65m shares, valued at around $50m, via Goldman Sachs. The deal, with a $20m international tranche, is expected to emerge this month.

Also in the next few weeks, Destec, a wholly-owned subsidiary of Dow Chemical, is bringing an initial public offering totalling $370m, with a $54m international tranche, and Dell Computer is bringing a $90m offering, with $17m internationally, both via Goldman.

An initial public offering for Automotive Parts and Accessories Companies is scheduled for early April.

First Brands, a US vehicle products firm, has filed an issue of 10.5m shares, of which a $50m international tranche will be placed in Europe, via Credit Suisse First Boston. A deal for health and medical group Take Care will also have an international tranche.

Even in difficult areas, like the US banking sector, bankers report some European interest. For example, part of Citicorp's stock offering last week was said to have been placed in Europe.

Demand for US airline stocks, out of favour for some time, is recovering. An offering of 1.5m United Airlines shares worth around $220m, which is due to be priced this week via Morgan Stanley, includes an international tranche of 200,000 shares, worth around $30m for placement outside the US and Canada. Dealers said that a successful transaction for American Airlines earlier this year set the stage for this UAL deal. Other US airlines are expected to take advantage of the market improvement.

However, it has not all been plain sailing. A deal for aluminium company Kaiser, vie Merrill Lynch, was cancelled when the issuer would not agree to price the shares to suit investor demand. However, dealers said there had been healthy European interest in the offering.

Dealers say the increased placement in Europe is matched by growing demand from Japan, where institutions have decided it is time to reinvest in US markets, after repatriating substantial amounts of funds last year.

With the Dow Jones index hovering around 3,000, up from 2,810 a month ago, dealers also report a growing volume of US equity block trades in Europe.

Having first focused on the US market, fund managers are also turning their attention to other stock markets which have performed well. Bankers are working on equity and convertible bond offerings for companies from a broad range of countries. Lower interest rates in the UK, for example, are likely to encourage UK companies to issue convertible bonds.

Tracy Corrigan

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Swiss Bk.Finance†	150	1996	5	9¼	101.78	SBC	7.805
Royal Hotel♦	100	1995	4	4⅛	100	Nomura International	4.125
PT Astra§(k)§†	125	2006	15	6¾	100	Morgan Stanley Int.	6.750
SEK†	700	1998	5	8⅜	99.75	Morgan Stanley Int.	8.438
Tokyu Construction(d)♦†	170	1995	4	4¼	100	Yamaichi International	4.250
Sumitomo Bakelite(e)♦†	120	1995	4	4¼	100	Nomura International	4.250
EIB†	300	1999	8	9⅝	99.80	Credit Lyonnais	8.681
Nissho Iwai UK†	30	1996	5	8½	101⅝	Dai-Ichi Kangyo Bank	8.092
ECUs							
Crediop O'seas Bank†	300	1996	5	9⅝	101¾	West LB	8.388
CANADIAN DOLLARS							
Province of Quebec†	250	1996	5	10½	101.35	Scotia Mcleod	10.143
Eksportfinans AS(i)†	125	1994	-	10⅛	99.95	Goldman Sachs Int.	10.100
AUSTRALIAN DOLLARS							
Unilever(Australia)(j)†	125	1998	7	12	101.05	Deutsche Bk.Cap.Mkts.	11.772
GMAC Australia(Fin.)†	75	1994	3	13	101½	Hambros Bank	12.371
Toronto-Dominion Aus.†	75	1994	3	12¼	101.85	Westpac Banking Corp.	11.487
Mobil Aus.Fin.Co.†	100	1997	6	12	100⅝	Westpac Banking Corp.	11.849
State Bank of NSW†	100	1996	5	11¾	99¾	Deutsche Bk.Cap.Mkts.	11.819
D-MARKS							
Nat.Bk.of Hungary†	200	1996	5	10½	99.75	Commerzbank AG	10.587
Showa Leasing Co.(b)★★‡†	55	1998	5	(b)	100	Sumitomo Bk.AG	-
Riken Corp♦(e)†	100	1995	4	4½	100	Dresdner Bank AG	4.500
Yonekyu Corp.♦	45	1995	4	4⅜	100	Nomura Bank(Deutsch.)	4.375
KYC Machine(f)♦†	50	1995	4	4½	100	Nikko Secs.GmBH	4.500
Salomon Brothers AG†	50	1993	2	10⅝	101	Salomon Brothers AG	10.049
FRENCH FRANCS							
Credit National(c)†	700	1999	8	9¼	100	Societe Generale	9.250
GECC†	750	1995	4	9⅜	101.16	Paribas Cap.Mkts.	9.017
Banque Paribas†	1bn	1999	8	9½	100	Paribas Cap.Mkts.	9.500
SWISS FRANCS							
Finnish Real Est.Bk.†	75	1996	-	7⅛	101⅝	J.Henry Schroder Bk.	6.732
Maiko Shokai(h)★★§†	30	1995	-	5½	100	UBS	5.494
Kito Corp.(l)★★§†	22	1995	-	5½	100	Nomura Bank (Switz)	5.500
Nittoku Engine.Co.(m)★★§	50	1995	-	5¼	100	Yamaichi Bank(Switz)	-
Prov.of Saskatchewan(n)†	200	2001	-	7⅛	101½	Credit Suisse	9.912
YE Data Inc.★★†	20	1996	-	7½	100¼	UBS	7.438
Philip Morris Co.Inc.(o)†	300	1996	-	7	102	Credit Suisse	6.519
LIRE							
ECSC†	450bn	1996	5	11⅞	101.70	Is.Bancario S'Paolo	11.410
PESETAS							
Int.Fin.Corp.†	8bn	1998	5	13⅜	101.62	Banco Exterior de Esp.	12.914
YEN							
Nippon Seiko KK†	20bn	1998	7¼	7.2	101.6	Yamaichi Int.(Euro.)	6.904
Nissan Cap.of Am.†	6bn	1993	2	7	100.82	Daiwa Europe	6.547
Republic of Finland†	50bn	1996	5	6¾	99.55	IBJ International	6.859
Taisei Holland BV†	3bn	1996	5¼	7⅜	101.87	Daito Securities	6.926
Mitsui Real Est.Dev.†	40bn	1998	7¼	7	101⅜	Nomura International	6.746
Eurofima†	30bn	1994	3	8⅞	99¾	Nikko Secs.Co.(Euro.)	8.970
Okobank†	3bn	1992	1	9	100⅞	Nippon Credit Int.	8.055
Swedbank†	5bn	1994	3	8⅞	101¼	Mitsubishi Trust Int.	8.404
LUXEMBOURG FRANCS							
ASLK-CGER IFICO(g)†	1.1bn	1999	8	9¼	102	Banque UCL	8.880
BGL†	1bn	1998	7	9⅛	102	BGL	8.731
Genfinance†	1bn	1999	8	9⅛	101.9	BGL	8.784

★★Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. ♦Variable rate note. †Final terms. a) Exercise premium fixed at 2.5%. Non-callable. b) Coupon pays 30bp over 6-month Libor. Non-callable. c) Amount increased from FFr650mn on 5/3/91. Investor has option to receive coupon or new bonds. Non-callable. d) Exercise premium fixed at 2.52%. e) Exercise premium fixed at 2.52%. f) Exercise premium fixed at 2.64%. Non-callable. g) Amount increased from LFr1bn on 6/3/91. Non-callable. h) Put option on 20/5/93 at 108½% to yield 8.366%. Conversion premium fixed at 2.518%. i) Put option on 30/9/93 at 108% to yield 8.423%. No conversion premium. j) Amount increased from A$100mn on 7/3/91 k) Amount increased from $100mn on 7/3/91. Coupon was indicated at 6½-7%. Conversion premium fixed at 17.7%. l) Fungible with existing C$250mn issue. Non-callable. m) Put option on 30/9/93 at 105% to yield 8.208%. n) Amount increased from SFr150mn. Non-callable. o) Amount increased from SFr250mn on 8/3/91. Non-callable. Yields are calculated on AIBD basis.

WORLD STOCK MARKETS

INDICES

	Mar. 8	Feb.27	Feb.20	year ago (approx.)
S & P Industrial div. yield	2.82	2.89	2.19	3.21
S & P Indl. P/E ratio	18.38	17.75	17.77	14.52

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Nabisco RJ	6,517,600	10¼	+ ⅛
Unisys	4,973,600	6¼	+ ¼
Laidlaw B	2,813,100	16⅛	- ⅛
AT & T	2,751,300	33	- ⅛
McDonald's	2,677,400	34	- ⅛
Reebok	2,500,600	24⅛	+ 1⅝
Wendy's	2,423,800	9½	+ ⅜
Am. Express	2,121,600	26⅛	+ ⅛
Savin Bus.	2,063,900	0.15	... ...
Philip Morris	1,949,200	67⅛	- ⅛

TRADING ACTIVITY

† Volume	Mar. 8	Mar. 7	Mar. 6
(Millions)			
New York	206.850	197.060	262.290
Amex	16.970	15.507	21.242
NASDAQ	(u)	191.890	199.397
Issues Traded	2,047	2,038	2,064
Rises	769	740	890
Falls	788	842	770
Unchanged	490	456	404
New Highs	109	96	181
New Lows	5	2	5

CANADA TORONTO

	Mar. 8	Mar. 7	Mar. 6	Mar. 5	1991 HIGH	1991 LOW
Metals & Minerals	3235.65	3237.50	3244.10	3284.18	3284.18 (5/3)	2632.06 (9/1)
Composite	3571.42	3564.04	3571.53	3561.90	3571.53 (6/3)	3161.95 (15/1)
MONTREAL Portfolio	1877.20	1876.81	1884.27	1888.19	1888.19 (5/3)	1686.89 (9/1)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Mar. 8	Mar. 7	Mar. 6	Mar. 5	1991 HIGH	1991 LOW
MALAYSIA KLSE Composite (4/4/86)	601.30	599.81	596.29	577.55	601.30 (8/3)	476.41 (16/1)
NETHERLANDS CBS Td.Rtn.Gen.(End 1983)	259.4	257.8	257.3	251.5	259.4 (8/3)	221.4 (16/1)
CBS All Shr (End 1983)	189.7	188.5	188.1	183.9	189.7 (8/3)	162.3 (16/1)
NORWAY Oslo SE (Ind) (2/1/83)	736.00	727.21	738.49	711.28	735.80 (8/3)	610.45 (21/1)
PHILIPPINES Manila Comp (2/1/85)	986.36	971.43	967.26	941.09	1006.04 (25/2)	582.64 (10/1)
SINGAPORE SES All-Singapore (2/4/75)	414.57	414.72	410.83	403.34	414.72 (7/3)	315.07 (16/1)
SOUTH AFRICA JSE Gold (28/9/78)	1083.0	1083.9	1071.0	1088.0	1367.0 (14/1)	971.0 (25/2)
JSE Industrial (28/9/78)	3284.0	3266.0	3260.0	3214.0	3284.0 (8/3)	2829.0 (16/1)
SOUTH KOREA** Korea Comp Ex. (4/1/80)	675.94	674.07	676.37	669.83	692.62 (4/1)	614.60 (16/1)
SPAIN Madrid SE (30/12/85)	277.03	272.59	271.83	264.13	277.03 (8/3)	213.70 (14/1)
SWEDEN Affärsvärlden Gen. (1/2/37)	1100.4	1100.3	1088.3	1067.6	1100.4 (8/3)	808.4 (8/1)
SWITZERLAND Swiss Bank Ind. (31/12/58)	736.6	725.8	726.4	712.4	736.6 (8/3)	590.4 (14/1)
SBC General (1/4/87)	608.5	602.3	603.6	593.5	608.5 (8/3)	487.1 (14/1)
TAIWAN** Weighted Price (30/6/66)	4588.44	4622.40	4487.84	4527.51	5181.98 (21/2)	3316.26 (16/1)
THAILAND Bangkok SET (30/4/75)	827.54	817.25	803.21	787.10	827.54 (8/3)	592.48 (16/1)
WORLD M.S. Capital Intl.(1/1/70) (§)	522.4*	522.3	521.7	520.4	524.2 (18/2)	439.1 (16/1)

**Saturday March 2: Taiwan Weighted Price: 4644.45; Korea Comp Ex. 677.55.
§ Subject to official recalculation. *Calculated at 15.00 GMT.
Base values of all indices are 100 except: Brussels SE, HEX General, ISEQ Overall and DAX—1,000, JSE Gold—255.7, JSE 26 Industrials—264.3 and Australia All Ordinary and Mining—500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Friday 8 March 1991

	Stocks Traded	Closing Prices	Change on day
S'tomo Metal	28.2m	540	+10
M'bishi Heavy	15.3m	820	+5
M'bishi Kasei	14.3m	710	+45
Minebea	14.0m	1,150	+40
Nippon Steel	11.0m	493	+3
Hitachi	8.4m	1,310	+30
Toshiba	8.3m	889	+5
Fujitsu	7.3m	1,250	+30
K'saki Steel	7.2m	454	+4
Chiyoda	7.0m	2,670	+110

Price data supplied by Telekurs.

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Martin Currie Unit Trusts Ltd (0905)H
40 Melville St, Edinburgh EH3 7HF Dlng 031-220 4924

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Far East (Pacific)	5¼	91 79	93 14	98 87	0 43	41357
Income & Growth	5¼	60.25	61 37xd	65 14	5 00	41358
European (z) ♣	5¼	55 45	55 45xd	58 86	1 21	41359
Nth American (z)	5¼	34 44	34 44	36 56	1.43	41360
Intl Growth(9-11	3¼	59 56	60 61	64 34	0 91	41361
UK Growth	5¼	54 58	55 20	59 23	2 42	41362
Intl Income	5¼	46 51	46 96xd	49 85	5 99	41366
High Yield	5¼	45 76	46 44	49 29	6 99	41365
Charities	5¼	90 95	92 24xd	97 91	5 77	46463
Japan	5¼	31 69	37 69xd	40 01	-	47589

Matheson Unit Trust Managers Ltd (1200)H
Admin: 5 Rayleigh Rd, Hutton, Brentwood Essex
Enquiries 0277 227300 Dealing 0277 261010

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
UK Growth (14-1)	6	67 51	68 96	73 79	3 35	45255
UK High Income	6	34 54	35 03	37 47	5 34	46356

NM Unit Trust Mngrs (1200)H
The Bilton Centre, North Harbour, Portsmouth
Enquiries 0705 372222 Dealing 0705 387730

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American ♥	5¼	30.11	30.22	32.23	1.58	41072
(Accum Units) ♥	5¼	32.22	32.35	34.50	1.58	41073
Australian ♥	5¼	152.3	154.1xd	165.3	3.32	41074
(Accum Units) ♥	5¼	171.5	173.5xd	186.1	3.32	41075
Conscience	5¼	30 19	31.14	34.57	1.43	41076
(Accum Units)	5¼	52 63	53.62	57.22	1 43	41077
European	5¼	141.4	143 1	152.6	1.02	41078
(Accum Units)	5¼	149 2	151.1	161.1	1.02	41079
Extra Income	5¼	66 25	60.25xd	69 63	8.77	41080
(Accum Units)	5¼	88.31	88.31xd	94.24	8.77	41081
Far East Gth Acc ♥	5¼	108 8	108 8	116.3	0.27	41082
Gilt & F I	5¼	51.28	51.28xd	54.20	9.23	41083
(Accum Units)	5¼	107 9	107 9	114.2	9.23	41084

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set at the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH.

FT MANAGED FUNDS SERVICE

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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
TSB Unit Trusts (1200)H						
Charlton Pl, Andover, Hants SP10 1RE 0264 346794						
TSB American	6	124.59	125 46	133.46	0.37	41457
Do Accum	6	136.19	137 14	145 89	0.37	41458
TSB Brit Growth	6	72.8	73 9	78.61	3.38	41459
Do Accum	6	80 48	81.7	86.91	3.38	41460
TSB European	6	74 15	74 52xd	79.27	1 07	41461
Do Accum	6	76 84	77.22xd	82.14	1 07	41462
TSB Extra Income	6	160.22	163 7xd	174.14	5 08	41463
Do Accum	6	231.07	236.09xd	251.15	5.08	41464
TSB Smaller Cos	6	42 65	44 21xd	47.03	2.71	41465
Do Accum	6	45.13	46 79xd	49.77	2.71	41467
TSB General	6	223.78	223 78	238 06	3 6	41468
Do Accum	6	417.54	417.54	444 19	3 6	41469
TSB Premier Income	5	43 94	44.55	46.4	8 69	41470
Do Accum	5	78 63	79.72	83.04	8 69	41471
TSB Income	6	302.17	307.5	327 12	4 89	41472
Do Accum	6	561 73	571 63	608.11	4 89	41473
TSB Pacific	6	216 21	218 03	231.94	0 2	41474
Do Accum	6	224 96	226.86	241 33	0.2	41475
TSB International	6	378 09	378 09	402.22	8 8	41476
Do Accum	6	484 98	484.98	515 93	8 8	41477
TSB Nat Resources	6	59 8	60 07	64.75	1.87	41478
Do Accum	6	64.87	66.04	79 25	1 07	41479
TSB Sictd Opps	6	78.45	80 15xd	85.26	3 03	41480
Do Accum	6	94.51	96 56xd	102 72	3.03	41481
Environmental Inv	6	46 0	46 78xd	49 76	2 14	46849
Do Accum	6	47 46	48.28xd	51.34	2 14	46850
TSB Selector	6	48 04	48 78	51 09	3.97	47660
Do Accum	6	49.51	50.27	53.47	3.97	47661
TSB High Income	6	50 93	51 82	55 12	5 71	44558
Do Accum	6	52.28	53.2	56 59	5 71	44559
TSB Intl Income	6	49.78	50 09	53.28	6 66	[illegible]
Do Accum	6	49 78	50 09	53 28	6 66	[illegible]
TSB Selector Income	6	50.27	50 83	54 07	6.1	[illegible]
Do Accum	6	50 27	50.83	54.07	6 1	[illegible]
Target Trust Mngrs Ltd (1600)F						
Target Hse, Gatehouse Rd, Aylesbury, Bucks. Admin. 0296 394000 Dealing: 0296 312156						
American Eagle	5	72 65	72.65	77.40	1 10	41482
Australia	5	5 503	5 503xd	5.893	4 53	41483
Equity	5	161.8	161 8	173 5	4.62	41486
Euro Spec Sits	5	110 0	110 0	118.2	0.58	41487
Financial	5	29 00	29.00	31.20	4 79	41488
Global Opps Inc	5	64 34	64 34	69.18	1.54	41489
Global Opps Acc	5	65 73	65.73	78.69	1.54	41490
Gold & Gen Inc	5	36 36	36.36	39.09	1.41	41491

	Bid Price	Offer Price	Yield Gross	City-line
M & G Securities Ltd				
Charibond	100.70	100 79	10.70	40883
(Accum Units)	548.41	548.41	10.70	40884
NAACIF Mar 5	–	41 94xd	9.62	46917
Morgan Grenfell Unit Trust Managers Ltd				
Exempt Funds				
UK Equity I Mar 5	125.8	133 9	2.93	46925
UK Small Co I Mar 5	481 1	519.0	2.06	46926
Fixed Interest † Mar 5	105.1	110.5	8.04	46920
US Small Co Mar 5	131.4	140 3	8.00	46927
Managed Mar 5	103.4	110 0	1.32	46924
Intl Bond Mar 5	111.6	117.6	7 78	47790
Japan Mar 5	60 98	73.74	8 93	47877
European Mar 5	83 00	89.72	1.64	47876
Nth American Mar 5	94.83	101.8	1.38	47878
Murray Johnstone UT Mngmt				
Murray Exempt Funds				
Amer Expt Mar 6	45.55	47.37xd	3.20	41064
Euro Expt Mar 6	49.92	52.42xd	2.23	41065
Fixed Int Ex Mar 6	46 16	47.31	10 48	46594
Japan Expt Mar 6	43 15	44.87	8.63	41066
Managed Ex Mar 7	43.85	45.61	4.30	41067
SE Asia Expt Mar 6	64.01	67.20	4.61	41068
Ser Cos Expt Mar 6	31.52	53 09	4.49	41069
UK Eqty Ex Mar 6	39 84	41.83xd	3.93	41070
Phillips & Drew Fund Management Ltd				
Small Co's Mar 6	688 9	732 6	4 86	41138
Do Accum	773 8	822.8	4 06	41139
Int Expt Mar 6	168 4	171.4	2 9	41140
UK Index Mar 6	1152 8	1174 8	4.95	46945
Do Accum	1232.0	1255 0	4.95	46946
Convertible Mar 1	91.19	94 8	7.97	46936
World ex UK Index Mar 4	733 8	743 1	1.96	47887
Do Accum	733 8	743.1	1.96	47888
Japan Index Mar 4	577.2	585.2	0.5	47881
Do Accum	578 6	586 6	0.5	47882
USA Index Mar 4	878.7	884.4	3.17	47885
Do Accum	900.4	906.1	3.17	47886
Europe ex UK Index Mar 4	852.5	872.1	2.78	47879
Do Accum	871.8	891.8	2.78	47880
Pacific ex Jap Index Mar 4	809 9	833.7	4.71	47883
Do Accum	840 1	864.7	4 71	47884
Managed Exempt Mar 6	183.2	104.9	5.77	40338
American Exempt Mar 6	123.8	125.9	3 47	40574
European Exempt Mar 6	115.6	117.3	3.83	40628

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

FT MANAGED FUNDS SERVICE

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N & P Life Assurance Ltd
6-7 Bedford Row, London WC1R 4UJ 071-430 2348

	Bid Price	Offer Price	Yield Gross	City-line
Life Managed Fd	102.2	107.6	–	41924
Pension Managed Fd	98.9	104.1	–	41926
Life Deposit Fd	105.1	110.6	–	41923
Pension Deposit Fd	109.3	115.1	–	41925

National Financial Management Corp PLC
72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
Managed Cautionary	108.2	118.3	–	47150
Managed Growth	135.1	145.5	–	47151
Managed Opportunity	129	161.8	–	47152
NFMC Target Financial	99.5	106.5	–	47153
Pension Funds				
Managed Cautionary	116.5	127.4	–	47154
Managed Growth	139	152.8	–	47155
Managed Opportunity	131.3	143.5	–	47156
NFMC Target Mngd Pen	1467.5	1595.2	–	47157

National Mutual Life
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	Yield Gross	City-line
Harvester Pension Funds				
Managed	155.0	164.1	–	45141
UK Equity	164.4	173.1	–	43135
Overseas Equity	127.8	134.6	–	43136
Fixed Interest	141.5	149.0	–	43137
Property	130.6	137.3	–	43138
Index Linked	144.7	152.4	–	43139
Deposit	151.9	159.9	–	43140
With Profits (B)	126.8	133.5	–	44120

National Provident Institution
48 Gracechurch St, London EC3P 3HH 071-623 4200

	Bid Price	Offer Price	Yield Gross	City-line
Managed	343.4	361.5	–	45163
UK Equity	439.4	462.6	–	43164
Overseas Eq	330.4	347.8	–	43165
Americas	260.2	273.9	–	43166
Far East	343.7	361.8	–	43167
Property	193.8	204.0	–	43168
Fixed Int	254.5	261.9	–	43169
Indexed Gilt	151.5	159.5	–	43170
Deposit	177.6	187.0	–	45111
Pension Fund (Accum Units)				
[illegible]				

Prosperity Life Assurance Ltd
1 Sessions Hse Sq, Maidstone ME14 1XX 0622 690555

	Bid Price	Offer Price	Yield Gross	City-line
Initial Equity	154.0	162.5	–	42995
Accum Equity	218.0	230.0	–	43005
Accum Managed	224.0	236.3	–	43006
Accum Five Star	165.0	174.5	–	43011
Accum World	119.5	126.5	–	43013
Accum Lifetime	110.7	110.1	–	47139
Pens Acc Equity	237.0	250.0	–	43025
Pens Acc Managed	278.5	294.0	–	43026
Pens Acc Intl	205.0	214.0	–	43027
Pens Acc Deposit	193.0	203.9	–	43029
Pens Acc Five Star	180.0	190.5	–	43031

Providence Capital Life Assc. Co Ltd
2 Bartley Way, Hook, Hants RG27 9XA 0256 768888

	Bid Price	Offer Price	Yield Gross	City-line
UK Equity Acc	225.6	236.9	–	43411
UK Fixed Int Acc	168.1	170.0	–	43412
Intl Equities Acc	164.0	170.3	–	43413
UK Managed Acc	170.7	180.0	–	43414
Property Acc	225.3	237.7	–	43415
Money Acc	126.4	133.4	–	43416
Special Market Acc	126.6	133.6	–	43417
Japan Equity Acc	102.0	107.7	–	46760
North American Acc	99.4	104.9	–	43419
Pacific Acc	87.4	92.2	–	43420
Technology Acc	107.2	115.1	–	43421
Nat Resources Acc	53.0	56.0	–	43422
European Acc	99.4	104.9	–	43424
Residential Prop Acc	95.7	101.0	–	43425
Swiss Equities Acc	34.3	36.2	–	43426
Hong Kong Acc	57.1	60.3	–	43427
UK High Inc Eq Acc	74.8	79.0	–	43428
Int Fixed Interest Acc	54.8	51.9	–	46406
Int Managed Acc	54.0	51.1	–	46407
HIP Managed Acc	108.6	114.5	–	46751
HIP Managed II Acc	96.1	101.3	–	41928
HIP Managed III Acc				
Total Investment Bond				
UK Equity Initial		152.7	–	43429
UK Fixed Int Initial		115.4	–	43418
Intl Equities Initial		114.7	–	43431
UK Managed Initial		116.0	–	43432
Property Initial		155.2	–	43433
Money Initial		86.9	–	43434
Special Market Initial		94.7	–	43435
Japan Equity Initial		79.6	–	46762
North American Initial		77.5	–	43477
Pacific Initial	[illegible]	[illegible]	[illegible]	[illegible]

Royal Heritage Life Assurance Ltd – Contd.

[illegible]

Norwich Union Asset Management Ltd

[illegible]

Norwich Union Life Insurance Soc.

[illegible]

Pearl Assurance (Unit Funds) Ltd

[illegible]

Pegasus Assurance Ltd

[illegible]

Premium Life Assurance Co Ltd

[illegible]

Professional Life Assurance Co Ltd

[illegible]

Prolific Life & Pensions Ltd

[illegible]

Property Equity & Life Ass. Co

[illegible]

Provident Life Assoc Ltd

[illegible]

Provident Mutual Life Assc. Assn.

[illegible]

Prudential Assurance Co

[illegible]

Prudential Holborn Life Ltd

[illegible]

Prudential Holborn Pensions Ltd

[illegible]

Prudential Pensions Limited

[illegible]

Regency Life Assurance Co Ltd

[illegible]

Reliance Mutual

[illegible]

Royal Heritage Life Assurance Ltd

[illegible]

Royal Life Insurance Ltd

[illegible]

Royal Liver Assurance

[illegible]

Save & Prosper Group

[illegible]

Scottish Amicable

[illegible]

Scottish Equitable Life Assce. Soc.

[illegible]

Scottish Life Investments

[illegible]

Scottish Mutual Assurance Society

[illegible]

Scottish Mutual Investments

[illegible]

Scottish Provident Institution

[illegible]

Scottish Widows' Group

[illegible]

Shield Assurance Ltd

[illegible]

Skandia Life Assurance Co Ltd

[illegible]

Standard Life Assurance Company

[illegible]

Sun Alliance Group

[illegible]

Sun Life of Canada (UK) Ltd

[illegible]

Sun Life Unit Assurance Ltd

[illegible]

Sun Life Unit Assurance Ltd – Contd.

[illegible]

Swiss Life (UK) PLC

[illegible]

Swiss Pioneer Life Plc

[illegible]

TSB Life Ltd

[illegible]

Target Life Assurance Co Ltd

[illegible]

Teachers' Assurance Company Ltd

[illegible]

Templeton Life Assurance Limited

[illegible]

Tunbridge Wells Equitable

[illegible]

Western Assurance Society

[illegible]

Windsor Life Assur Co Ltd

[illegible]

Woolwich Life Assurance Co Ltd

[illegible]

Zurich Life Assurance Co Ltd

[illegible]

OFFSHORE INSURANCES

[illegible]

CMI Insurance Co Ltd – Contd.

[illegible]

Eagle Star Intl Financial Services

[illegible]

Equitable Life Assce Society

[illegible]

Fidelity & Law Intl Life Assce Co Ltd

[illegible]

Finisterre Life Assurance Co Ltd

[illegible]

Hansard International Ltd

[illegible]

Isle of Man Assurance Ltd

[illegible]

Manulife International Ltd

[illegible]

Premium Life International Ltd

[illegible]

Providence Capital International Ltd

[illegible]

Royal Life Intl. Ltd

[illegible]

Royal Skandia Life Assurance Ltd

[illegible]

Sun Alliance International Life

[illegible]

Target International Group

[illegible]

Albany International Assurance Ltd

[illegible]

CMI Insurance Co Ltd

[illegible]

MANAGEMENT SERVICES

David M. Aaron (Personal Fin. Plans.) Ltd

[illegible]

The Analysis Group PLC

[illegible]

Bryan Walls & Partners Ltd

[illegible]

James Campbell & Son Financial Services

[illegible]

Chase de Vere PLC

[illegible]

ECU Futures Plc

[illegible]

Edinburgh Money Management Ltd

[illegible]

Fairmount Gims Reijs Ltd

[illegible]

Gartmore Fund Managers Ltd

[illegible]

Hambros Financial Services

[illegible]

I.P.S. Lamont plc

[illegible]

Johnson Fry Financial Services Ltd

[illegible]

Knight Williams & Company Ltd

[illegible]

Macartney & Dowie F.S. Ltd

[illegible]

Northam Binge & Partners

[illegible]

Shaw (Albert E) & Co.

[illegible]

J. D. Ward Financial Services Ltd

[illegible]

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Orion Fund Limited

[illegible]

CANADA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Hambros Fd Mgrs (CI) Ltd

[illegible]

Leopold Joseph Fund Mngrs (Guernsey) Ltd

[illegible]

Kleinwort Benson Intl Fd Mngrs Ltd

[illegible]

Lazard Fund Mngrs (Channel Islands) Ltd

[illegible]

Lloyds Intl Money Market Fund Ltd

[illegible]

M & G (Guernsey) Ltd

[illegible]

Prolific International Mngmt Ltd

[illegible]

Rothschild Asset Management (CI) Ltd

[illegible]

Royal Bank of Canada Funds

[illegible]

Sarasin Funds Mngmt (Guernsey) Ltd

[illegible]

Schroder Investment Mngmt (Guernsey) Ltd

[illegible]

GUERNSEY (REGULATED)

Adams & Neville Fund Mngt (Guernsey) Ltd

[illegible]

Arab Bank Fund Managers (Guernsey) Ltd

[illegible]

Bachmann Global Investment Fund Ltd

[illegible]

Credit Suisse Asset Mngmt (Guernsey) Ltd

[illegible]

Fleming Fund Managers (Guernsey) Ltd

[illegible]

Hambros Fund Managers (CI) Ltd

[illegible]

Henderson Admin. (Guernsey)

[illegible]

Hill Samuel Fd. Mngrs. (Guernsey) Ltd

[illegible]

Holborn Fund Management (Guernsey) Ltd

[illegible]

Kleinwort Benson Intl Fd Mngrs Ltd

[illegible]

Kleinwort Benson Islamic Fd Mngmt Ltd

[illegible]

Lazard Fund Managers (Guernsey) Ltd

[illegible]

Merrill Lynch Guernsey

[illegible]

Nikko Capital Mngt (Europe) Ltd

[illegible]

Saudi International (Guernsey) Ltd

[illegible]

Schroder Investment Mngmt (Guernsey) Ltd

[illegible]

هكذا من الاصل

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

	Bid Price	Offer Price	Yield Gross	City-line
U.S. Treasury Securities Fund Ltd				
Short Term Shares		$753.12	-	45903
Fixed Income Shares		$874.06	-	45904
Yamaichi Capital Mangmt (Guernsey) Ltd				
Japan Meta Growth		$11.12	-	46000
Yamaichi ISS Fund		$8.07	-	46691
Yamaichi CB Plus Fund		$8.77	-	47335
Thai Inv Fund		$11.39	-	46495

IRELAND (SIB RECOGNISED)

Unit Name	Init. Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
GAM Fund Management Ltd (u)						
29 Kildare Street, Dublin 010 353 1760 630						
GAM Universal $ Dir Acc	$-		112.26			40337
GAM Universal US Dir Inc	$-		112.26			40340
GAM Universal DM Acc	DM-		112.20			40341
GAM Universal DM Inc	DM-		112.20			40342
MI Global Asset Mngmt Co Ltd "MI Trusts"						
MI Global Dollar	$-		1.01	1.00		40441

IRELAND (REGULATED)(**)

	Bid Price	Offer Price	Yield Gross	City-line
Bank of Ireland Unit Managers Ltd				
Global Scap	$9.45	10.25	-	43795
European Bond	[illegible]	[illegible]	-	-
Baring International Fd Mngrs (Ireland) Ltd				
Australia	$14.16	14.00	1.05	44759
Japan Tech	$62.57	65.71	-	44762
Japan Fund	$26.41	27.74	0.17	44763
Japan New Gorth Fd	$19.09	20.00	-	44764
Malay Sing	$57.56	60.45	0.31	44765

Unit Name	Init. Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
INVESCO MIM International (Jersey) Ltd						
PO Box 271, St Helier, Jersey 0534 73114						
Jersey Gilt (z)	5¼	£0.1702	0.1702	0.1796	9.19	45451
Lloyds Bank (CI) U/T Mgrs.						
PO Box 195, St Helier, Jersey 0534 27561						
Lloyds Tst Gilt	2½	£9.543	9.558	9.808	11.32	45393
Dealing daily						
Midland Bank Fund Managers (Jersey) Ltd						
PO Box 26, St Helier, Jersey 0534 37788						
Intl Circuit Portfolio	6	99.52	99.52	105.57	0.00	41027
Gilt	3	93.60	93.60	96.52	10.36	45946
For MIM see INVESCO MIM						
Royal Trust Jsy Fd Mngt Ltd (1400)F						
PO Box 428, St Helier, Jersey 0534 76077						
Govt Secs Fd	4	55.20	55.20	57.62	11.28	45734
TSB Trust Funds (CI)						
PO Box 538, St Helier, Jersey 0534 73494						
TSB Offshore Investment Fund Ltd						
Stg Deposit Class	3	103.60	103.60	106.71	12.75	45837
Gilt & Fixed Interest	5	102.49	102.49	105.56	11.63	43466
Blue Chip & Gilt Edged	5	48.99	48.99	52.16	5.56	45836
International Bond	5	103.88	103.88	109.09	7.52	43472
UK Equity	5	96.39	96.39	104.33	1.62	43572
International Equity	5	100.59	100.59	107.43	0.43	43569
Far Eastern	5	82.92	82.92	88.80	0.00	43461
European	5	86.51	86.51	91.35	0.42	43450
Pan American	5	93.89	93.89	99.77	0.79	43570
TSB Gilt Fund Ltd						
Quarterly Share	5	97.49	97.07	100.94	10.64	45833
Monthly Share	3	95.46	95.46	98.45	10.87	45834

JERSEY (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

[illegible]

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

The cycle moves on

THE D-MARK, one of the worlds more dependable currencies, is looking vulnerable to the factor that has provided its main support, the German economy. At the same time the dollar and sterling no longer appear as vulnerable on economic or interest rate factors.

UK clearing bank base lending rate 13 per cent from February 27, 1991

As the US and British economies slid into recession US interest rates were cut and the dollar was allowed to take the strain, falling to record lows. High UK inflation meant that London rates had to remain firm and sterling was supported but became very interest rate sensitive.

This means that the dollar has already absorbed lower US rates and may well be entering a long term upward period, as falling world rates narrow differentials. The US is also ahead in the economic cycle and is likely to move out of recession when other countries are slowing.

A recent business outlook survey by the Bank of Japan pointed towards a "fuzzy recession" according to market reaction in Tokyo, while the latest economic news from Germany indicates lower growth and a deterioration in the trade performance, as the problems of unification continue. Germany's current account slipped into deficit in January for the first time since August 1985.

Last week's surge in London equity prices partly reflected hopes that the recession in the UK will be shallow and short-lived. Financial markets shrugged off the Conservative government's loss of the Ribble Valley by-election and remained resolutely optimistic.

This mood was underpinned by the fact that sterling rose against the D-Mark, and looked comfortable within the EMS exchange rate mechanism, despite a fall in wholesale interest rates to a level discounting another cut in bank base rates.

£ IN NEW YORK

Mar 8	Close	Previous Close
£ Spot	1.8835-1.8845	1.8880-1.8890
1 month	0.97-0.95pm	0.98-0.96pm
3 months	2.64-2.60pm	2.63-2.60pm
12 months	7.70-7.60pm	7.78-7.60pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

CURRENCY MOVEMENTS

CURRENCY RATES

OTHER CURRENCIES

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

FINANCIAL TIMES STOCK INDICES

	Mar 8	Mar 7	Mar 6	Mar 5	Mar 4	Mar 1	1990/91 High	1990/91 Low	Since Compilation High	Since Compilation Low
Government Secs.	85.15	85.13	84.94	84.74	84.81	84.76	85.68	74.13	127.4	48.18
Fixed Interest	93.32	93.33	93.27	93.21	93.15	93.22	94.23	83.80	105.4	50.53
Ordinary	1958.7	1950.8	1977.5	1946.0	1818.1	1918.2	1877.5	1510.4	2008.8	49.4
Gold Mines	143.2	143.4	142.7	142.5	143.0	143.0	378.5	127.0	734.7	43.5
FT-Act All Share	1192.13	1183.79	1192.56	1171.35	1154.87	1154.48	1226.83	962.09	1226.83	61.92
FT-SE 100	2455.0	2437.7	2459.9	2420.1	2382.9	2386.8	2463.7	1990.2	2463.7	986.9
FT-SE Eurotrack 100	1097.05	1087.99	1088.64	1064.17	1054.89	1045.70	1097.05	900.45	1097.05	900.45
FT-SE Eurotrack 200	1133.31	1127.13	1130.24	1106.10	1094.59	1088.10	1133.31	938.62	1133.31	938.62

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS—Contd

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Contd

CANADIANS

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

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The following constituent changes took place during the week ending 8/3/91: Addition: Intl. Nederlanden Group (Netherlands). Deletions: Nat-Nederlanden and NMB Postbank (both Netherlands).

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT.

BANKS, HP & LEASING

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
2,411.9	ABN Amro Fl5	£9¼		8.9	4.9	Aug May	1567
1,342.2	ANZ $A1	128	-7.2	12.1	28.12	Jan Jul	1698
3,563.2	Abbey National 10p	272	5.8	4.8	6.8	Apr Oct	5411
1,170.3	Allied Irish Ord	180	4.0	5.0	19.11	Dec July	1354
36.0	Anglo Irish	68	-7.7	7.0	10.12	Jan July	1355
76.5	Ansbacher (H.) 1p	41	-4.7	8.1	12.3	April	1624
937.7	Bancaire Cie Fr100	£54½	6.4	2.4	9.5	May Mar	2202
5,972.6	Banco Bilbao Viz	£16½		5.0	9.12	Dec June	–
3,081.8	Banco de Santander	£29	3.8	4.2	31.10	Apr Oct	–
666.6	Bank Ireland Ir£1	199	9.3	6.6	19.11	July Dec	1360
134.4	Bank Leumi	£19½		–	–	–	1740
25.0	Bank Leumi (U.K.) £1	350		6.1	25.2	Apr Sep	1740
1,855.4	Bank Scotland	138½	5.7	4.4	8.10	Dec Jul	1742
104.0	Do. 9¼pc Irrd Pf £1	104	0.5	11.9	22.10	May Nov	1462
107.3	Do. 9¼pc Irrd Pf £1	107¼		12.1	–	–	–
11.4	Bank of Wales	42		8.9	8.10	Nov Jun	1743
7,347.8	Barclays £1	463	7.9	6.3	20.8	Oct May	1754
4.83	Benchmark 20p	9		11.1	9.4	May Oct	1802
36.5	Brown Shipley £1	229	2.2	‡	10.12	Jan Aug	1983
108.3	Cater Allen £1	457		7.1	19.11	Jan. Aug	2081
7.51	Chancery	360		‡	25.6	Jan July	2102
464.5	Commerzbk DM10	£18¼	1.4	3.4	27.5	May	1046
23,457.8	Dai Ichi Kbk Y50	837	-4.3	0.4	4.7	June	3221
7,189.8	Deutsche Bk DM50	£225½	3.5	2.1	17.5	May	2345
187.1	Espirito Santo	£17½	2.9	2.2	–	June	5187
323.3	First Nat. Fin 10p	208	7.0	8.7	14.1	Feb Aug	2571
49.9	FNFC 6.3pc Cv Pf £1	103	5.1	8.2	31.12	July	2570
13,851.0	Fuji Bank Y50	1020	1.6	0.3	4.7	Dec June	1084
111.9	Gerrard & National	199		7.5	22.10	June Dec.	2686
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS – Contd

ELECTRICITY

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
531.7	Charter Cons 2p	503	2.4	5.2	31.12	Jan Aug	2105
–	Charter House 50c	6		–	–	–	–
9.11	Chieftain Grp 5p	105	7.1	6.0	10.9	Apr Oct	5327
5.78	Chillington Con	41	7.9	16.3	19.11	Dec. Aug	2125
1,543.7	China Light HK$5	134	11.7	3.6	2.3	Ja Ap Ju No	2130
385.8	Christies Int'l 5p	247	17.1	4.3	24.9	Nov May	2132
28.9	Clayhithe	137	9.6	5.8	31.12	Feb July	2160
2.45	Clearmark 5p	2		–	9.85	–	2553

INDUSTRIALS (Miscel.) – Contd.

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
398.1	Do. 'A' N-V	520	9.0	0.5	25.2	Apr Sep	[illegible]
31.8	Securiguard Grp 5p	119	19.0	9.0	11.2	Feb Apr Aug	[illegible]
11.3	Security Archives 20p	181	0.6	4.8	10.12	Aug Feb	[illegible]
460.4	Security Services	420	11.1	1.3	25.2	Apr Sep	[illegible]
1.72	Select Appointments 5p	8	14.3	–	25.6	Jan Aug	[illegible]
35.6	Serco Group 2p	428	6.3	3.6	10.9	Oct Apr	[illegible]
33.4	Seton Healthcare Grp. 10p	165	-0.6	5.0	31.12	Jan July	[illegible]
482.2	Sharks & McEwan 50p	1398	4.5	2.2	10.12	Dec Jul	[illegible]
4.12	Shaw (Arthur) 10p	47	-2.1	11.6	19.11	Aug Jan	[illegible]

INSURANCES

LEISURE

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Contd

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

INVESTMENT TRUST

[illegible]

INVESTMENT TRUST—Contd

[illegible]

INVESTMENT TRUST—Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha refers to shares traded through SEAQ by at least two marketmakers and with a normal market size of 2,000 or more, based on experience of how many of its shares are traded in the typical deal. β Beta refers to all other shares. γ Gamma refers to other traded instruments.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ✱ Not comparable
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ✱ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. 1 Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xl ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1	β	675	......
Finlay Pkg. 5p	β	31	3.3
Holt (Jos) 25p	β	1320	0.5

IRISH

Cap. 8½% Ln. 1991	£99½	......
9pc Cap Ln. 1996	£98¼	1.2
Fin. 13% 97/02	£114½	0.4
Arnotts	160	......
Carroll (P.J.)	154	......
Helton Hldgs	50	11.1
IRG	150	......
United Drug	165	10.0

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	40
Amstrad	6
Astec (BSR)	4½
BAT	44
BOC Grp	28
BTR	25
Barclays	30
Blue Circle	19
Boots	29
Bowaters	43
Brit Aerospace	45
British Steel	10½
Brit. Telecom	25
Cadburys	28
Charter Cons	38
Comm Union	40
Courtaulds	28
Eurotunnel	35
FKI	5
FNFC	28
Gen Accident	41
GEC	15
Glaxo	68
Grand Met	51
Guardian	17
GKN	27
Hanson	16
Hawker Sidd	35
ICI	70
Ladbroke	22
Legal & Gen	32
Lex Service	17
Lloyds Bank	24
Lucas Inds	11
Marks & Spencer	19
Midland Bk	16
Nat West Bk	21
P & O Dfd	44
Racal Elect	15
RHM	23
Rank Org Ord	52
Reed Intnl	32
STC	19
Sears	7½
SmKl. Beecham A	51
TI	35
TSB	11
Tesco	19
Thorn EMI	55
Trust Houses	23
T&N	15
Unilever	52
Vickers	16
Wellcome	33

Property

Brit Land	24
Control Secs	3½
Land Securities	45
MEPC	38
Mountleigh	9

Oils

Aviva Petlm	3
Brit Petroleum	27
Burmah Castrol	46
Conroy Petlm	15
Gaelic Res	1½
Premier	7
Shell	57
Tuskar Res	2
Ultramar	29

Mines

Lonrho	19
RTZ	48

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1,150 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service:

Additions: Golden Vale (Section: Foods, Groceries).

MMI (Paper, Printing, Advertising). Serif Cowells (Paper, Printing, Advertising).

Deletions: Reliant Group (Industrials). STC (Electricals).

4:00 pm prices March 8

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1991 High	1991 Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14⅝	9¼	AAR Corp	0.46	0.03	12	1765	u15⅞	14⅛	13	+⅞
25¾	21⅝	A L Labs A	0.18	0.01	20	230	u25¼	25⅝	25¾	+⅛
54¾	40⅞	AMP Inc	1.44	0.03	18	1280	53⅛	52⅞	53⅛	+¼
63	44¼	AMR				908068	50⅜	28⅛	00⅛	−1⅜
2¾	1¼	ARX			2	56	1⅞	1⅞	1⅞	+⅛
48¾	41½	ASA	3.00	0.06	13	1237	47¾	46⅛	47	+1
47⅞	39¼	Abbott Lab			21	13379	u48⅞	46¼	47⅛	+1⅛
13¼	8⅞	Abitibi Pr	0.50	0.04	10	23	u13¼	13⅛	13¼	−⅛
11¼	10⅜	ACM Gvt In x				031	11	10⅞	17	
9⅜	8¾	ACM GvOpp x				50	9¼	6⅛	8¼	
9	8¼	ACM Gvt Sp x	0.34	0.64		203	8⅞	8⅛	8¼	
10⅜	9⅞	ACM Gvt Se				911	10⅜	10¼	19⅜	−¼
8¼	7⅛	ACM Man x				436	7⅞	7¼	7⅞	+⅛
12¾	11⅞	ACM Mangd x				140	12½	12⅜	12⅜	
7¼	4¼	Acme Cleve	0.40	0.06	20	300	7	6¾	7	+⅛
6	4¼	Acme Elect			16	3	6	x⅞	5	
37½	22¾	Acuson			28	1026	28	04¾	34¾	−⅜
17⅛	14¼	Adams Expr	0.48	0.03	0	210	16¾	16½	16¾	−¼
28	16⅞	Adobe 12Pf				0	u20	19¾	20	
9¼	7½	Adobe Res			22	1186	9⅜	8½	8⅛	+¼
00¼	18	Ad Micro x				33	27⅞	27⅞	27⅞	−⅛
10¼	4⅛	Ad Micro P	3.00	0.30	16	8068	0⅞	0⅛	8⅞	−¼
4⅞	2¼	Advest Grp			3	79	x	8⅞	x	+½
40⅞	33¾	Aetna Li	2.76	0.06	7	1652	45⅞	40⅞	40½	−⅛
10¼	6⅜	Ahl A	0.24	0.06	26	993	10¼	0¾	10	
18⅛	12	Ahmanson	0.88	0.00	91	197	18	17	17	−⅞
3⅞	2⅞	Aileen Inc			6	296	8¼	3½	8¼	

[illegible]

NYSE COMPOSITE PRICES

Continued from previous page

- X - Y - Z -

58¾	35¼	Xerox x	3.00 0.05	102843	58⅝	61½	66¼	+⅜
49¾	40¼	Xerox4.125 a		11	48¼	48¼	48¾	–¼
21	14¼	Xtra 1.94		31	20¾	20¾	20¾	–⅛
24¾	14¾	Xtra Corp	0.72 0.03 15	218	23⅞	23¾	23⅞	+⅛
1½	⅝	Zapata		01165	1⅛	1⅛	1⅛	–⅛
8⅞	3⅛	ZenithElec		4 952	u8⅞	8	9¼	
17¾	12	Zenith Nat	1.00 0.08 27	120	u17½	17⅛	17½	+⅛
6⅞	4½	Zenix Inc	0.28 0.00	40	5½	6⅞	5⅞	
13⅞	10⅞	Zero Corp	0.72 0.80 13	155	13¼	13⅛	13¼	+⅜
41⅞	26½	Zurn Ind	0.88 0.02 15	488	39½	39	26⅝	–⅛
12⅞	10⅛	Zweig Fund		323	12¾	12⅜	12⅝	
9¾	8½	Zweig Tot		1131	u9⅞	9½	9⅞	+¼

Price data supplied by Telekurs.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 15 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 15 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 72 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices March 8

NASDAQ NATIONAL MARKET

4:00 pm prices March 8

- X - Y - Z -

Xilinx			481	1331	u24¼	28¾	22¾	+½
XL Data			9	680	9¾	65¾	6½	+½
Xoma Corp			17	1611	31¾	60	30	–¼
YellowFr	1.52		18	58	u21¼	70½	21¼	
Yellow Fr	0.94		10	958	00	31	31	–½
York Rsch			19	1845	u18⅛	17⅞	18¼	+⅛
ZionsUtah	0.50		9	266	57	50	57	+⅛

MONDAY INTERVIEW

The 12th man takes the crease

Peter Lilley, British trade and industry secretary, speaks to **Ian Hargreaves**

'Business has an overdeveloped finance function'

In the 11 years of Mrs Thatcher's reign, 11 Cabinet ministers came and went at the Department of Trade and Industry. The 12th, Peter Lilley, who took over last July following Nicholas Ridley's *selbstmord*, sees the funny side of it. "I'm just half way through the average term of office, or put another way, if this parliament lasts its full length and I stay in this post, I shall be the longest serving secretary of state since 1979. It's appalling."

Mr Lilley is, unjustly, not much known for his sense of humour. A shy man with a nervous oscillation in his thin voice, he is widely dismissed in the Commons as one of those over-promoted young (he is 47) Thatcherites that Mr Major could not be bothered to ditch in his first Cabinet of all persuasions. "Nigel Lawson without the weight," says one Tory MP.

"He doesn't have the flair for raising or lowering the temperature in the House and he can give the impression of not having any blood in his veins," says one who has observed him closely. "But he's probably the most intelligent man in the Cabinet. He could, conceivably, make chancellor."

Certainly his political profile could not be clearer. Having literally fought shy of university politics at Cambridge, where he read science, then economics, Mr Lilley became an economic consultant and then a stockbroker's oil analyst. At the same time, he worked to push the Conservative Bow Group rightwards. He soon became a protégé first of Sir Geoffrey Howe and then of Nigel Lawson and in 1985 helped found the No Turning Back group of Tory MPs to resist pressure for a more comforting strain of Conservatism. But it is only now, in the nitty gritty of the industry department, that Mr Lilley can be more than a literate exponent of the free market party line.

He has already shown toughness by resisting ICI's wish to sell its fertiliser business to Kemira of Finland, even though ICI threatened to close the lot down if refused, and proclaiming that the competition authorities should scrutinise bids by public sector corporations – a policy widely seen both as confusing and anti-French. He also last week announced a further important liberalisation of UK telecommunications.

When I spoke to him last week, he was about to leave for a weekend in the country for a departmental think-in on characteristically Lilleyputian lines: day one overview, then detailed consideration of competition policy, regional policy, innovation and improved services from his department.

He denies that he has any desire to abolish or even greatly diminish the DTI – Mr Ridley seemed to cherish such a perception – and takes care to stress his belief in the importance of manufacturing in a modern economy.

But what is there to say about industrial policy from such a committed free-market perspective? Does he not sometimes cast an envious glance at the industrial policies of Japan and Germany?

"The more I look at it, the more I see them moving in our direction rather than us needing to move in theirs," he says. "There are enormous myths about what Miti has and hasn't done. To attribute the success

PERSONAL FILE

- **1943** Born. Educated Dulwich College and Cambridge University.
- **1966-72** Economic consultant.
- **1972-84** Investment adviser, oil industry.
- **1983** Elected MP for St Albans.
- **1987-89** Treasury minister.
- **1990** Joins Thatcher Cabinet as trade and industry secretary.

of Japan to the interventions and foresight of Miti would be as foolish as to attribute the difficulties Britain has had to the particular role performed by the DTI."

Explanations for success and failure, he says, lie deep in national cultures. "To the extent that there is a problem of short-termism, it is owed much more to the business culture we have than to the structure of capital ownership. In particular, we have an over-developed finance function, *vis-à-vis* the production function. We have 120,000 accountants compared with 7,000 in Germany. The inevitable thing in a company dominated by financial people is an excessive preoccupation with succeeding in making deals rather than the predilection of the production manager and the engineer to proceed by organic growth.

"That's where a lot of our weakness lies. The answer is to produce more engineers, to use them better and to make sure they acquire the skills as managers rather than just being technicians." Is there a role for government here? Yes, he says, but only in education and training.

Mr Lilley's most concrete contributions to industrial policy, if he stays long enough, are likely to be in the further privatisation of the department's services, and of the Post Office and the rest of British Telecom. He is coy about the nature of any likely manifesto commitment on the Post Office, although he argued for privatisation in a pamphlet 18 months ago. On British Telecom, it is just a question of timing.

Privatisation, he says, is also a critical link in competition policy, but he urges critics who accuse him of inflexibility to look at actual rulings, where the state-ownership factor has not prevented smaller deals. "In the case of large takeovers and those with a large share of the market or presenting a serious competition issue, then the state ownership factor will be an additional negative in the minds of the Monopolies and Mergers Commission." He denies that this subverts the 1984 Tebbit doctrine, which reasserted the primacy of straight competition considerations in MMC rulings. The Lilley doctrine, he says, "is that competition is very important, but so too is private ownership." Does he have more changes in mind? "I do have some rather technical thoughts which I'm working up, but they won't be of the nature of adding new criteria; they will have a significance of a different nature from that of further denting the Tebbit doctrine."

He also says he is interested in exploring further the method of regulating the big, privatised utilities, although he argues that Britain's use of the "inflation minus X" formula for setting prices is an internationally admired success. "That very success means one has to start thinking in the terms you are talking about, as to whether there is more transparency that can or need be introduced. But that's a second-order question compared with the first quantum leap."

Perhaps the most surprising item on this *laisser-faire* policy agenda is the desire to do something about British industry's chronic underperformance in research and development, especially with regard to small and medium-sized companies.

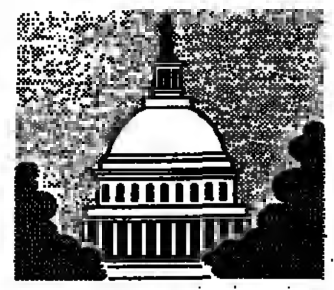
"We spend £3bn a year on civil R&D through science-based universities, polytechnics and research establishments – that's a higher proportion of GDP than Japan ... what we've got to do is to bring industry and that science base together to get the commercial spin off." One trend he wants to encourage is physical proximity of industry and academia – more science parks.

All of this suggests that the ideological Mr Lilley has at least a streak of pragmatism in him, and that he is not unwilling to steal a garment or two from Labour's industrial policy wardrobe. He also, it turns out, has a strong vein of political instinct, which he has been known to summarise as "romantic nationalism". His speeches occasionally creak at the seams as he tries to fit this White Cliffs of Dover sentiment within the fiercely Cambridge rational tone of his overall approach. Earlier this year he argued to the Bruges group that Europe would be better with a market of competing national sovereignties and jurisdictions; just, he might have added, as the telephone industry is better with many suppliers rather than a pair.

No-one who knows Mr Lilley doubts that he will keep the Thatcherite faith. The political question is whether John Major, with whom he has worked closely for some years, will do the same. But asked about his own long, unwinding road, Mr Lilley makes two interesting points. On the same day the DTI published the telecoms review last week, Malcolm Rifkind, the transport secretary, also announced an important liberalisation of UK airports policy. "He and I would be thought to be from different wings of the party and yet the philosophy animating the two statements was exactly the same."

But is he equally happy with the recent behaviour of the party chairman, Chris Patten, who has taken to emphasising the case for improved public services and the social market economy? Again he denies a contradiction. "Ever since Keith Joseph introduced us to it, I always thought that was supposed to be a right-wing term."

A shortage of caring, industrious citizens



MICHAEL PROWSE on America

President George Bush is an unlikely hero. On Capitol Hill last week, he got the kind of reception usually reserved for returning astronauts. Congressmen waved flags, clapped themselves silly and screamed "Bush, Bush, Bush". The president responded with an embarrassed grin – the kind of smile the class weakling might produce having unaccountably knocked out the school bully. It seemed to say: "You didn't think I had the guts. I didn't think I had the guts. But I did it all the same."

The triumph in the Gulf has predictably raised expectations at home. Indeed, in his address to Congress, Mr Bush himself sought to draw domestic lessons from the conduct of foreign policy. "In the war just ended, there were clear-cut objectives, timetables and, above all, an overriding imperative to achieve results. We must bring that same sense of self-discipline, that same sense of urgency, to the way we meet challenges at home." As always, the rhetoric was uplifting. The difficulty lies in determining what, if anything, Mr Bush is prepared to commit himself to domestically.

It would be wrong, I think, to say that Mr Bush does not care about the US's social and economic ills. There was a lump in his throat last week when he related a story about an American soldier capturing terrified Iraqi prisoners. Instead of treating them roughly, the soldier offered reassurance: "It's OK. You're alright now." The moral Mr Bush drew concerned the warmth and integrity of the American people. In a line no European politician would have dared utter, he declared: "We are a good people, a generous people. Let us always be caring and good and generous in all we do."

As a caring man, the president must worry about the US murder rate: the gruesome reality is that young blacks face a greater risk of death on the streets of American cities than in military ventures abroad. He must worry about homelessness and the incessant begging on US streets. He must worry that the poverty rate is higher than in the early 1970s. He must worry that some 33m Americans lack health insurance and hence reliable access to care. He must worry about the 25 per cent of young people who drop out of high school and the one third of black teenagers who are unemployed.

The difficulty is that while Mr Bush has a clear notion of the required response to aggression against a peaceful member of the United Nations, he is completely at sea when presented with social disorders at home. His instinct is to argue that such problems can best be solved by a mixture of

Mr Bush is utterly at sea when presented with social disorders at home

private philanthropy and self-help, that government intervention will typically do more harm than good. Such attitudes, common among conservatives, are often the result of introspection.

Suppose Mr Bush had been dropped into an inner city aged 22 with no qualifications, no job, no home, no money and a black skin. He may reason that he would have overcome these disadvantages by dint of honest hard work; prosperity – if not tha presidency – would still have been possible. And if he could have overcome the obstacles, so can others: people, in other words, choose crime, poverty, unemployment and other evils primarily because they are not willing to make the effort to build a better life for themselves and their families. Government can incarcerate people and hand out welfare cheques, but it cannot change the attitudes which determine success or failure in life.

This is the classic conservative argument for *laisser faire*. What it ignores is that the skills, values and mental attitudes which determine an individual's future are not inherent but the result of specific forms of nurturing – in the home and at school. American society, like most others, is deeply flawed primarily because too many individuals are poorly educated in the broadest sense. Unlike Mr Bush, they have not had the benefits of financial security, a supportive family, and an expensive private education.

Plato's solution was to abolish the family and create perfect citizens by rearing all children in carefully controlled state nurseries. This ghastly idea is certain not to appeal to individualist Americans but it at least confronts a fundamental problem: that many individuals make awful parents, and, in the modern world, many do not hang about long enough to make a mess of parenthood.

Mr Bush wants to be remembered not just as a victorious commander-in-chief but as the education president. He has so far done little to justify such a title, other than to elaborate an ambitious set of goals for the year 2000. But his sense of priorities is correct. In the absence of utopian reforms of the family, the cure for social problems can only be found in the creation of a more effective and all-embracing form of education. Schools' remit will have to extend beyond the teaching of a few academic and vocational skills; they must increasingly try to compensate for lack of appropriate guidance at home and for a host of counter-productive social forces. Their aim must be to create rounded citizens, with the values as well as abilities necessary for success.

I do not know if schools in the US or elsewhere are remotely capable of rising to this challenge. But if they do not, the values admired by Mr Bush are likely to remain in painfully short supply. And social problems will multiply.

Conundrum multiplied by enigma

IAN DAVIDSON on Europe

The defence of western Europe has now become one of the central issues facing the European Community. At least, it has become a central issue in rhetorical terms, if you measure it by the number of public utterances by leading European statesmen. It is not yet clear, however, whether there is any relationship between rhetoric and reality, nor whether these statesmen are yet to be taken seriously.

Of the rhetoric there is no doubt. In December, the European Community launched a negotiation on political union which should "consider" defence matters. In January, France and Germany proposed that the Western European Union defence grouping should definitely become the vehicle for a European Community security policy.

In February, the nine member governments of the WEU released a paper suggesting a strengthened defence policy role for the organisation, which would link it both to the Community and to Nato. And last week Mr Jacques Delors, president of the European Commission, urged that defence should be written into the new political union treaty now being negotiated between the Twelve.

This European rhetoric has been taken sufficiently seriously in Washington to have prompted a fierce response of disapproval, not to say hostility, from the US administration. Immediately before last month's WEU meeting, Washington circulated a tough note to all the Nato allies, protesting at length against any strengthening of the WEU which could create specifically European structures inside Nato.

The note objected especially strongly to the Franco-German idea that the WEU should in future take instructions from the heads of government of the European Community. It conceded that the WEU could have a bigger role in military operations outside the Nato area; but inside Europe there should be no change in Nato structures, no new organisations, no modification of the role of the Supreme Allied Commander (SACEUR). In other words, keep out, and mind your own business.

The Europeans cannot stop talking about defence, however, for at least three reasons. The first is the retreat of the Soviet Union; the second is the war in the Gulf; and the third is the Community's inter-governmental conference (IGC) on political union.

In Europe, the collapse of the Cold War, the progressive withdrawal of Soviet forces from eastern Europe, and the disintegration of the Warsaw Pact all require a fundamental rethink of western defence arrangements. Nato is already trying to review its strategy; but no-one yet knows how many US troops will be left in Europe once the dust of the Gulf War has settled.

The stark political challenge of the Gulf war has highlighted the disarray of Europe's response. The contrast with Europe's pretensions to closer political union has proved acutely embarrassing to some member states, not least to Germany, which has, in theory, just recovered complete national sovereignty. As a result, the Bonn government will propose a revision of the national constitution, which would, in future, permit the deployment of German troops outside the Nato area, provided it was under the auspices of the WEU.

The negotiation of a European political treaty is an essential complement, from Germany's point of view, to the negotiation on economic and monetary union; Bonn has long made clear that it regarded these two projects as inseparable. But the content and the timing of the political union treaty have now also become inseparable from the Alliance negotiations on the up-dating of Nato.

As a result, we are likely to see three separate but linked negotiations coming together some time in the autumn: the modernisstion of Nato; the strengthening of the WEU; and the conclusion of the European Community's treaty on political union.

This process may be characterised as a conundrum multiplied by an enigma. The conundrum is the future of Nato. All members of the Alliance say they want it to continue, with a US military presence in Europe. But it is not clear what becomes of Nato if US forces in Europe are reduced from 330,000 to say 70,000; and at low levels both of threat and of military force on both sides, the very idea of a US Supreme Allied Commander (SACEUR) becomes an anomaly.

The enigma is France, whose policy is characteristically difficult to decipher. On the one hand, the French claim the right to be quite independent from the rest of the Atlantic Alliance; on the other hand, they claim to be absolutely loyal members of the Alliance; on the third hand, they insist on the need to keep America in Europe; on the fourth hand, they insist on the need to build a truly European defence; on the fifth hand, they imply that there can be no truly European defence so long as the US continues to lead the Alliance; on the sixth hand, they decline to put forward any proposals for Alliance reform, let alone any requests.

This is what they say: The Alliance and the US presence are essential for strategic deterrence; if there continues to be a SACEUR, he should continue to be an American; but in that case, France will stay out of it, and probably bring all its troops home from Germany.

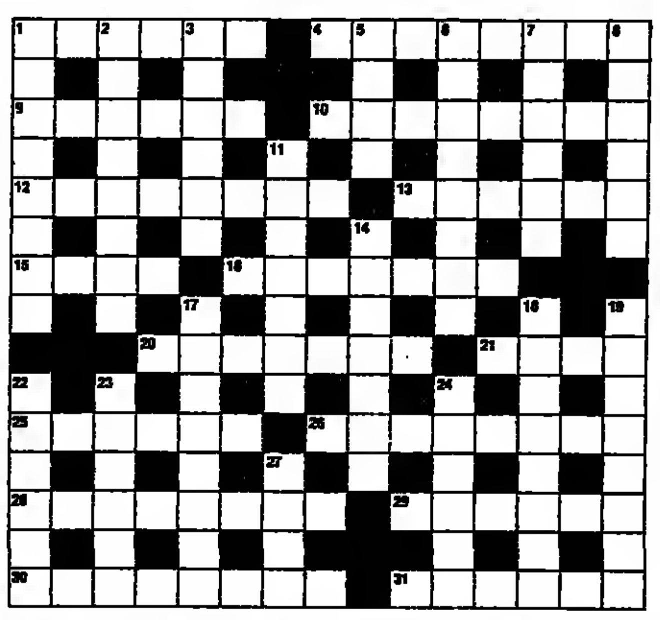
The French do not seek to replace the Alliance defence by a European defence; and yet the European Community cannot be deprived of a defence capacity. That capacity is needed for potential intervention, either outside the Nato area, or perhaps in the case of local disturbances in eastern Europe. The French want to strengthen the WEU for tasks not carried out by the Alliance, whereas Britain, they say, wants it to be a European pillar inside the Alliance.

Perhaps there is a solution both to the conundrum and to the enigma; if so, it is not yet clear to me, it is not yet clear to Nato, and it is probably not yet clear to the French. But the Americans fear that they and the French may be on a collision course.

JOTTER PAD

CROSSWORD

No.7,490 Set by HIGHLANDER



ACROSS

1 Appropriate mathematical relationship with speed (6)
4 Turn away unfamiliar blend of tea (8)
9 Will not need yard behind but (6)
10 Blight on one yellow flower (8)
12 Strangely, no man is island, leading to sleep problem (8)
13 Make cuts in Cato's banner (6)
15 Make a note of old firm's trademark (4)
16 Legal practitioners make a great deal (7)
20 Keep an eye on classroom helper (7)
21 Put up with sport (4)
25 Fair play, originally quite unknown (6)
26 Two sounds: could be shooting (8)
28 Disney artist makes changes to airman (8)
29 Tick shows approval (6)
30 Landing flares (8)
31 He starts north to organise enclosure for birds (3-3)

DOWN

1 Old and sick need energy tablet (8)
2 By the way writing on the wall is guidance for travellers (4,4)
3 Tribal symbols carry writing (6)
5 First place for pilot (4)
8 Long story about the sams plague (8)
7 Summon up a device containing oxygen (6)
8 Bear continue to exist (6)
11 Huge bird caught in a revolving vessel (7)
14 A pitch on the rocks (7)
17 Get in touch with residents' leader in Deal (8)
18 Behave less tamely and cause utter confusion (8)
19 Promising showing in Sussex (8)
22 List particulars with detachment (6)
23 Thinking about evil face (6)
24 Scattered spears (6)
27 Blue feathers on paper (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday March 23.

FINANCIAL TIMES SURVEY

EUROPEAN INFORMATION TECHNOLOGY

SECTION III

Monday March 11, 1991

While Europe's economic growth slows down, its IT companies are braced for more casualties and restructuring. But US and Japanese suppliers show greater faith in the market's future, writes **Guy de Jonquières, International Business Editor**

The struggle intensifies

The electronic revolution: keeping a round-the-clock watch for faults on London's telephone system

THERE CAN be few industrial sectors in which the views of leading participants on market conditions and prospects diverge quite so widely as in Europe's information technology and electronics business.

Most European-owned IT prodncers view the future with growing apprehension, born of deepening financial and competitive problems. These have been highlighted by the crisis at Philips of the Netherlands, the largest European electronics company, which is shedding about 50,000 staff in a desperate effort to stem losses.

In computers, Nixdorf of Germany has had to be rescued from threatened collapse by Siemens, while losses or sharply reduced profits have compelled Bull of France, Olivetti of Italy and Norsk Data of Norway to retrench. And in consumer electronics, France's state-owned Thomson group has plunged into heavy loss.

Europe's three main chipmakers, Philips, Siemens and the Italian-French SGS-Thomson group, slightly increased their share of the world market last year. But all still lack scale economies and are far from generating the returns needed to fund the larger investments needed to stay competitive.

Now European-owned companies are bracing themselves for slower European economic growth, which threatens to claim further casualties and speed industry restructuring.

From a US or Japanese perspective, however, things look rather different. To American computer companies, in particular, Europe still offers a relatively safe refuge from the turmoil on their home market.

IBM, for instance, earned more than two thirds of its net income in Europe in 1989. And as Mr John Sculley, chairman of Apple, says: "If you want to know where the major US personal computer firms are making money these days, it's not in the US. There really is no European computer industry, so we are doing well there."

Rich pickings may prove more elusive in an economic downturn. Nonetheless, the continued rise in European investments by North American and Japanese electronics companies testifies to their growing belief in the market's longer term prospects.

Most leading Japanese and US chipmakers have or plan plants in Europe, which seem likely to account for much of future European production of advanced components.

IBM recently deepened its involvement in Europe by moving from the US to London the worldwide headquarters of its communications division. Canada's Northern Telecom, meanwhile, purchased STC of Britain late last year, while Fujitsu took control of ICL, STC's computer subsidiary, in a politically controversial deal.

The contrast in attitudes is the more striking in the light of the strenuous efforts made in the 1980s to strengthen the European indnstry. These inclnded subsidised EC research collaboration, trade protection, the launch of the single market programme, a snccession of cross-border mergers and management shake-ups, leading

Yet, despite these measures, the European industry remains handicapped by a fragmented structure and poor economies of scale. Europe's compnter makers remain heavily dependent on their home markets, while the combined turnover of its three main chipmakers is exceeded by each of Japan's three biggest producers.

Telecommunications manufacturing has been rationalised by mergers into three main groups, but differing national procurement policies still prevent full integration of their operations on a pan-European basis. The only sector in which European IT companies possess a broad base is consumer electronics, where Philips and Thomson of France have expanded by acquisition in the US. Furthermore, the European industry is more often a follower than a leader in successful product innovation. In fast-growing global markets, such as laptop computers, workstations, 32-bit microprocessors, package software and camcorders, the running has been made by US or Japanese concerns. Even in the growing market for "open systems", for which European computer suppliers have worked hard to formulate common standards, they have been slow to seize the commercial initiative. Only ICL has invested aggressively to develop a range of new "open systems" products.

The European IT industry has long blamed its weaknesses on two main problems. One is inadequate R&D. However, spending levels increased substantially in the 1980s, doubling in the past four years.

It now appears that the European industry's deficiencies in product innovation have more to do with the way R&D is applied, and are due to a large extent to rigid organisation and bureaucratic bottlenecks in European companies.

Secondly, producers blame the lack of a large, homogenous home market. As a proportion of Gross Domestic Product, spending on most types of products – from chips to computer equipment – is still lower in Europe than in the US and Japan, and European business users are slower to adopt IT innovations.

Suppliers' costs are increased by differing technical standards and fragmented distribution networks. European IT companies argue that their US and Japanese competitors are better equipped to absorb these costs because they have already built up large sales volumes at home. However, there is also growing evidence that prices in Europe reflect more than just the extra costs of doing business there. For products from computers to video recorders, European pre-tax prices are twice or more those charged in the US for identical items.

One explanation is that the American and Japanese suppliers which dominate European sales of products such as computers have chosen to maximise margins rather than volume. Instead of challenging the prices set by the market leaders, European producers have opted to shelter under them.

In consumer electronics and microchips, which have seen fierce price competition, the EC has repeatedly resorted to anti-dumping actions to shelter threatened European prodncers against their Japanese rivals. These measures have raised prices of some products by as much as 50 per cent.

But whatever the reasons for high prices, they can only serve to dampen demand and discourage European business customers from exploiting the full potential of IT to improve productivity and innovate in products and services.

However, pricing structures in Europe are likely to face mounting pressures in the next few years. In compnters, the move to "open systems" has already cut equipment prices by as much as 30 per cent, while planned EC liberalisation holds out the promise of a similar downward trend in telecommunications.

Fiercer price competition can also be expected as US and Japanese companies continue to move more deeply into the European market and produce more of what they sell in large local plants, many of which need high production volumes to be profitable.

Snch developments will be good news for IT users across a wida range of European industries. However, they will add to the difficult challenges already confronting European IT suppliers by injecting increased urgency into their struggle to increase efficiency, speed up product innovation and broaden their base beyond their traditional markets.

For policy makers, at both EC and national level, the challenge will be to adapt to rapid changes which are blurring the frontiers of IT. The structure of Europe's IT industry is becoming increasingly international, due to the growth of global alliances and of local investments by companies based elsewhere.

At the same time, the widening penetration of IT is giving users an increasingly important role in determining its development, exploiting its economic benefits and encouraging further innovation.

These developments raise questions about the role of European policies which, until now, have focused primarily on measures designed to strengthen indigenous snppliers. In the future, the test of policies may lie less in how effectively they snpport the production of IT than how they encourage its application.

IN THIS SURVEY

Editorial production: Maurice Semuelson

هكذا من الأصل

Alan Cane compares the IT market's explosion in Japan and the US with Europe's slower pace

Differences of culture and technology

DEMAND for information technology (IT) products in Europe, from personal computers to corporate networks, lags behind the US and Japan. The US spends about $448 a head annually on information technology equipment and Japan about $442 a head. The UK, Germany, France and Italy combined spend only about $307 a head.

This reluctance to invest in computer equipment is seen, in an environment where spending on IT is often equated with commercial competitiveness, as a drag on the region's business performance.

There are various reasons for Europe's apparent parsimony. The US has been the source of most innovations in business computing in the past few years and there is a distinct time lag before technologies diffuse to Europe.

A rule of thumb is that two years generally elapse before a US-developed business technology becomes commonplace in the UK; several more months must pass before it becomes 'widespread' in Europe. An example would be the use of high performance personal computers. In the US, pcs based on Intel's 80/286 microprocessor chip are now regarded as old hat as customers move to 80/386, 80/386SX and 80/486 based machines. European users have yet to take to adopt the more advanced machines in volume.

Furthermore, certain sensitive technologies – data encryption, for example, which is of critical importance to data transmission in banking applications – may not be exported outside the US. That caused International Business Machines a little embarrassment last year when it launched its new mainframe family, emphasising the importance of built-in cryptographic techniques. It transpired that the technology could only be exported to certain customers, such as large banks.

There is also the fact, discussed elsewhere in this survey, that computer equipment costs significantly more in Europe than in the US. Perhaps most important, however, are cultural attitudes. US computer users are much more willing than Europeans to adopt a technology quickly and discard it if it fails to meet expectations. They are also more ready to change or upgrade their systems.

Heavy and poorly thought-out spending on computers may slow a company down

The Japanese situation is somewhat different. The Japanese have been slow to adopt office automation, chiefly, it seems, for cultural reasons. But Japanese businesses are automating heavily in the same way that Western businesses automated in the 1970s and 1980s so the Japanese – and Asian – computer market is booming.

The fact remains that the basic premise of a simple link between computerisation and competitive advantage does not stand up in practice. Investment in computer technology does not guarantee competitiveness and, indeed, heavy and poorly thought through spending on computer systems may slow a company down. It is important to distinguish between IT systems installed to promote efficiency and those installed for business effectiveness.

Promoting efficiency is the traditional role of computer systems – automating business practices, such as accountancy and payrolling, which would otherwise have to be carried out manually. Such systems can be a powerful source of business competitiveness because they cut costs.

In the 1960s, however, business consultants began to talk about using computer systems to gain competitive advantage. Peter Drucker described the change in the Harvard Business Review: "So far most computer users still use the new technology only to do faster what they have always done before, crunch conventional numbers. But as soon as a company takes the first tentative steps from data to information, its decision processes, management structure and even the way it gets its work done begin to be transformed."

The transformation, however, has proved to much more difficult than the experts predicted. Consultants like Paul Strassmann have shown convincingly that there is no simple relationship between investment in IT and competitiveness.

European companies can take some heart from the fact that if they trail the US and Japan in using computers efficiently, no country seems to have much of a lead in using them effectively. What developments can be expected in European IT over the next few years which will favour both efficiency and effectiveness? The IT arm of Price Waterhouse, the financial consultancy group, carried out a study last year for the European Commission which indicated that the single most important development in the 1990s will be the emergence of information systems based on client server and open systems approaches.

Correct management is critically more important than computerisation

Client server computing implies a network linking workstations ("clients") and larger machines ("servers") which offer computational facilities and databases. According to Price Waterhouse, "the underlying technologies have now reached the state where a critical mass has been achieved. Many industry observers consider the trend towards client server is now irreversible, although it is likely to take up to five years seen before it is seen in widespread use."

Open systems imply the adoption of common standards throughout the industry which make it simple to connect together equipment from different makers. The report adds that application portability will become a reality as an increasing number of the standards required to support application interfaces across different hardware bases are agreed and adopted by the IT industry. In this area, Europe "is as strongly positioned as the rest of the world".

Price Waterhouse concludes: "This change will bring considerable new business opportunities to those users able to take advantage of the new IT capabilities and economics by adopting new ways of doing business."

Many of the studies that have been carried out over the past few years conclude is that it is critically important to put in place correct management methods and business practices before computerisation.

Otherwise, automating a mess merely produces a bigger mess. The disadvantages of being remote from the source of innovation or of paying through the nose for equipment will take time and may be difficult to remedy.

But there is no reason why European companies should not excel in the use of IT; and that means rethinking business objectives from scratch.

PRICING POLICIES

US buyers get a better deal

PRICING policies which penalise European IT customers compared with their US competitors are hindering the diffusion of information technology in Europe and jeopardising the fragile financial health of Europe's computer companies.

European customers are being charged prices for imported US systems which can be double or more the price they fetch in the US. The European market in both hardware and packaged software is dominated by US suppliers. Prices for computer systems built in Europe by foreign manufacturers or by Europe's dwindling band of computer-makers are set to the levels of foreign imports.

The price differential exists for every level of power, but is particularly marked in mid-range and small machines. A personal computer costing $4,200 in the US fetches $6,565 in Britain. An IBM midrange AS/400 complete with semiconductor memory and disk storage costing £13,584 in the US will cost £19,616 in the UK.

Caveat emptor, however. When making price comparisons in computer systems, it is often very difficult to compare like with like. There may be very little difference in the prices of a mainframe central processing unit (cpu) in the US and Europe; but a computer system is of no practical use until it is equipped with cpu, semiconductor memory, disk storage and other peripherals. Each of these is priced separately and differential pricing of disk drives, for example, can drive up the cost of a European system compared to its North American equivalent.

"Unlike central processors, where prices internationally tend to fall to the same level, ignoring local taxes and tariffs, there is a clear differential at present between prices in North America and Europe," says the US market consultancy Xephon.

So, for example, an IBM 3390 disk drive that costs $106,000 in Europe costs only $76,000 in the US. Four megabytes of semiconductor storage for a midrange computer cost £2,369 in the US but £3,178 in the UK.

The picture is complicated not only by price differentials between the US and Europe but between individual European countries. Research carried out by the Unisys user group, for example, shows that it is cheaper for the Dutch to buy certain software in Germany and for the Germans to buy other software in Holland. The most expensive country for computers, it seems, is Switzerland.

One result is that a false layer of profitability has over the years been built into the margins of European manufacturers. Most computer industry experts believe that this situation cannot continue. The computer industry is becoming increasingly a global business and there are powerful pressures for harmonisation of prices. International Business Machines, for example, the most global of computer companies with manufacturing operations in the US, Europe and in Asia, is already harmonising prices extensively. It lists, for example, the price of its midrange AS/400 model C10 complete with operating system as $27,660 in the US and £26,408 in Europe.

The trend towards price harmonisation must affect European computer makers who are already under considerable financial pressure, squeezed between slowing demand from customers and falling margins as the trends to "downsizing" and "open systems" continue. Downsizing means using low cost but powerful machines built in modern technology to replace older and more expensive computers. Open systems involve computers built from commercially available microchips parts to industry standard designs. The gross margin in open systems products may be less than 40 per cent compared with 70 per cent or more for proprietary systems.

This squeeze on margins is already hurting European manufacturers badly; to remain competitive they have already had to cut prices by up to 30 per cent. The fear is that harmonised prices will add to their distress by cutting profit margins still further.

Mr Keith Manning, director of strategy and planning for the UK subsidiary of Bull, the loss-making French manufacturer, disagrees. He argues that lower prices will create a larger information technology cake in Europe which will benefit suppliers and customers alike.

He points out that a variety of factors contribute to lower US prices including lower prices for land and buildings and the significantly lower costs of sales associated with a single, large and homogeneous country. By comparison, marketing in Europe, where different languages and standards make a standard approach impossible, is expensive.

Furthermore, US computer users buy more computers than their European counterparts and are more willing to "churn" their portfolio – that is upgrade or replace equipment more rapidly and regularly. Although global harmonisation of prices is, perhaps, inevitable, it may take several years to work through and in the meantime European companies may find themselves handicapped in competitive terms by the higher costs of IT equipment.

It leads to a circular argument. If customers were willing to buy more IT equipment, prices could be lowered benefiting suppliers and supplied alike.

But until prices are lowered, there is little incentive to invest more heavily in computers and computer software. It is possible for companies to buy equipment abroad to gain the benefits of lower prices but it can be a risky strategy. There are shipping and insurance costs to contend with as well as the modification of the computer's electrical systems to suit the local market.

Olivetti factory in Italy: doubts about the speed of EC price harmonisation

Most medium and small sized companies will want to take on either the risk or technological challenge that involves. Only about 10 per cent of European users of equipment made by the US manufacturer Unisys were prepared to buy abroad to cut costs.

There are hopes that the advent of the single market in 1992 will harmonise prices quickly across Europe – "although I don't suppose it will", one European data processing manager said gloomily. The arrival of 1992 will have no immediate influence on the trans-Atlantic price difference, however. European customers can console themselves with the thought that the US technique of "throwing technology" at a management problem rarely works.

Today, selective investment in technology to support a sound management strategy is reckoned more effective.

Alan Cane

EC INFRASTRUCTURE

Realising the vision

THE principle sounds remarkably simple. "We can have free movement of people, goods, capital and services across the European Community: there has got to be a legitimate case for that to be extended to the electronic environment."

There can be few in the EC, be they information technology groups, Eurocrats or national politicians, who disagree with the basic vision of this particular European Commission official. But realising the vision is another matter.

Information technology may make up only a part of this vision, but the goal is important to ensure the efficient operation of the Community's internal market, come 1993.

At the moment, European information technology is rooted in differing national systems. Mr Maria Filippo Pandolfi, the research commissioner, wants to institute a "European nervous system", a catch-phrase which sums up both the importance and the complexity of the EC's aim: inter-operability of different national telecommunications systems.

Ease of cross-border data transmission and exchange will have a number of applications, especially after 1992, from use of the same bank payment card in supermarkets from Athens to Accrington, to management of the Community itself – the exchange of tax data, for example.

Backed by the European Council, the Commission submitted its latest report on all aspects of trans-European networks at the end of last year.

It identified several important barriers to the emergence of such networks and urged "vigorous and concerted political action" to make these obstacles disappear.

The industries involved do not deny that the Commission has an important role to play in this regard. But some critics believe that Mr Pandolfi's desire for a European nervous system, in which "open" telecommunication systems could connect incompatible equipment, is the result of pressure from IT companies. The critics say European groups want to spend EC funds on demonstrating to national governments the superiority of their own open systems technology to that of their main competitor, IBM.

Interest groups are also concerned that the Commission is putting the cart before the horse, by fixing its gaze on the liberalised and harmonised IT infrastructure, before gleaning enough information from users about what they actually require from such a system.

National governments, for example, would almost certainly need a dedicated broadband telecommunications system, capable of handling a data transfer rate of at least 2m bytes a second of information; other users might be content with data channels offering 64,000 bytes a second.

"Someone needs to chivvy the market along, and it's quite reasonable for the Commission to get governments talking together," says one EC telecoms group. "But what commercial customers desire at the moment is actually to be able to send information internationally in the most convenient manner."

Unice – the Union of Industrial and Employers' Confederations of Europe – is another advocate of a flexible approach to IT infrastructure. Unice represents users and suppliers of IT and telecommunications equipment and services and Mr Daniel Cloquet, the group's director for industrial affairs, says everybody could benefit from the European network initiative. But he adds: "The Commission should not be hypnotised by the need for one infrastructure; the same services can be provided on a combination of flexible networks. We're not dependent on a single infrastructure such as fibre optics."

The Commission was expected this month to produce a strategy paper on information technology. But leaks of working documents from the EC's IT directorate have already aroused the ire of Brussels free-marketeers, who object to the protectionist and interventionist tone of the policy paper.

As for a trans-European IT network, some believe commercial demand for such a system may run ahead of the Commission's sluggish mechanics. "When customers want something, we will do it," says one spokesman for a European supplier. By comparison, the draft Council resolution on the subject sounds somewhat vague: "(The Council) invites the Commission before mid-1991 to take initiatives allowing the setting in place of telematic service networks needed for the operation of the Internal Market."

Andrew Hill

BANKING

The knowledge spreads

DR LEANDRO DELGADO is a man with a mission. As director-general of Portugal's largest commercial bank, Banco Portuges Do Atlantico (BPA), he is responsible for its expansion into Spain and preparation for increased competition as banking in southern Europe is deregulated.

With three years in New York and two years in London behind him Dr Delgado feels that his colleagues have something to learn from bankers in Anglo-Saxon countries. And the use of information technology would help them.

"Anglo-Saxon culture is more flexible. In the Latin countries people are still keen on red tape. Banking here is weighed down with paperwork," he says.

In Madrid, Dr Delgado is supervising the introduction of an international banking management system. IBM's venerable System 36 computers are giving way to the AS400 mid-range machine and software from banking systems house Kapiti. On the functional level BPA will see balance sheets, asset management and money market deals running across a network common to Lisbon, New York and Macao.

For Dr Delgado there is a further significance. "We need to convince people to approach banking with an eye to the future. We should be like a doctor who tries to prevent a disease rather than wait for it to happen and then look for a cure. The banking systems we are studying follow a philosophy of evaluating a situation, such as a foreign exchange problem, in advance."

This is not an attitude that Portuguese and Spanish banks have warmed to in the past, according to Dr Delgado. But now they have no choice. "Implementing technology is something we need to do despite the cost.

It is the only way for Portugal to catch up with the rest of the EC. But in order to exploit it we need cross-fertilisation and good influences on our domestic banking system."

One such influence came with the arrival of the data-processing manager from BPA's London branch in Madrid. The bank could not find the right technical personnel in Spain. BPA also turned to Italy, where Olivetti has been working with leading banks on a scheme to introduce unmanned branches.

Automatic branches could be a logical next step in the march of the ubiquitous automated teller machine (ATM). Robby di Stefano, a native of Sydney who works out of Milan as Olivetti's international marketing manager for banking and finance, regards it as proof of the rise of the PC work-station.

'We need to convince people to approach banking with an eye to the future. We should be like a doctor who tries to prevent a disease rather than wait for it to happen and then look for a cure.'

"There has been a very significant shift in the last two or three years. PC technology is very much on the go. Banks here in Italy found themselves selling stocks and shares and services like insurance. They wanted the technology to help them sell these new products."

The PC work-station gave more power to employees at branch level and widened the divide between computing at a local level and centralised transaction processing, still dominated by large mainframe computers. With better self-service devices inside branches Italian banks began to review the branch system.

The cost of building and staffing more conventional bank branches combined with the potential of network technology to manage remote sites *enabled Olivetti to sell the idea* of automatic banking without difficulty.

Nine Italian banks and Portugal's BPA are currently trying out automatic branches. Touch-screens provide information on insurance services and video disks extol the virtues of credit cards. Ten branches costing around 1m each, opened in the first 12 months of the experiment. One leading Italian bank, Banca Commerciale Italiana, is planning to open 200 and has earmarked over 50 per cent of its IT expenditure for automatic branch equipment.

Each branch occupies around 100 sqm – "like a small one bedroom apartment", says Mr Di Stefano. Olivetti takes complete responsibility for site purchase and construction. As far as possible the bank's data-processing operation is kept out of the detail. New devices are configured into current networks with an emphasis on maintaining existing technology. This limits costs and is the only way to open up branches on a monthly basis.

With a huge customer base in banking Olivetti has taken a long look at the market. Mr Di Stefano is confident that the next five years will see banks spending progressively less on mainframe computing.

While western European banks this year will pay $2.25bn for mainframe systems, the growth rate will slow from 6 to 5 per cent per annum. PC purchases average $1bn a year, but the growth of expenditure on PCs is 25 per cent per annum.

Banks are thinking small. This is good news for the PC makers, but it puts a damper on some of the more euphoric predictions of a technically united Europe by 1992. Since most banking mergers still take place within national boundaries there is no dramatic requirement to rip out old networks. And the proliferation of PCs is itself an endorsement of the most common IT standard.

At Utrecht in the Netherlands, Rabobank has plumped for DR-One, a dealing room system from BIS Banking Systems. Jacques Van Eyck, information manager for the dealing room, is enthusiastic. The fact that this system is essentially a PC network tying dealer work-stations together wins Van Eyck's praise. In the humble PC he recognises a trusted tool.

More exotic technologies are not to be relied on. "We are also looking at artificial intelligence and knowledge-based systems. But we are very sceptical. What we've seen so far is not encouraging. We think you can never make an automated deal."

Some tasks are too important to let the computer take over, and Mr Van Eyck's dealers are happy to do the job with some extra support from a PC integrating data feeds on to one screen.

The increasing importance of the PC is also a symptom of banks counting their costs. Even the grandest projects now incorporate the need to recoup outlay as fast as possible.

Krediet Bank of Brussels is working on an international banking system. It asked Electronic Data Systems (EDS) to provide technical expertise on an ambitious plan to produce a global integrated banking programme. Krediet Bank needs this kind of technology to keep up with the competition. And in order to afford the investment it has formed a joint venture to sell the International Banking System (IBS) with EDS.

EDS will not sell IBS within Belgium without Krediet's permission, and the bank will win a return on every system sold. Financiers have learned to claw back the IT bill.

Michael Dempsey

هكذا من الأصل

SIEMENS NIXDORF

"Computers are becoming more and more alike" (BusinessWeek)
"Intelligent applications make the difference" (Siemens Nixdorf)

These days, no computer company has a monopoly on technical progress. Huge memories are just as common as high-speed processors.

It is time for customers to fully exploit the often underutilized *scope and capacity of modern* technology. Not only with today's systems, but also with tomorrow's.

That's just what Siemens Nixdorf is working on: "Synergy at work" for intelligent applications, tailored to meet the needs of our customers – and their customers.

Merchandise processing systems with self-scanning terminals for the retail trade, putting an end to queuing at the checkout. Mainframe systems for production plants which allow jobs to be completed "just-in-time". Expert systems for banks which permit the smallest branch to offer comprehensive all-round financial services.

These are just three examples which show that we transform computers into marketing instruments for our customers.

Because intelligent applications, which allow our customers to offer their customers new service ideas, make the difference – from one computer company to the other.

Siemens Nixdorf Information Systems

Synergy at work

هكذا من الأصل

Integrated manufacturing makes its debut, writes Andrew Baxter

New frontier in the factory

THE usa of computers in manufacturing could aptly be subtitled "acronyms in action," such is the preponderance of impressive sounding abbreviations used by the computer companies to lend added weight to their sales patter.

Cad/Cam (computer aided design/computer aided manufacturing) may be old hat in the 1990s, but new buzzwords have emerged in an industry which has seen a marked change of attitude by customers over the past five years.

The current in-word is CIM, computer integrated manufacturing, but despite some successes it remains a myth, according to Rugby-based consultants Ingersoll Engineers. "This is because a single supplier can provide compatibility between software applications and between hardware, but cannot cover the full range of customers' requirements," it says.

Nevertheless CIM can be found at work, albeit on a small scale, in European manufacturing industry.

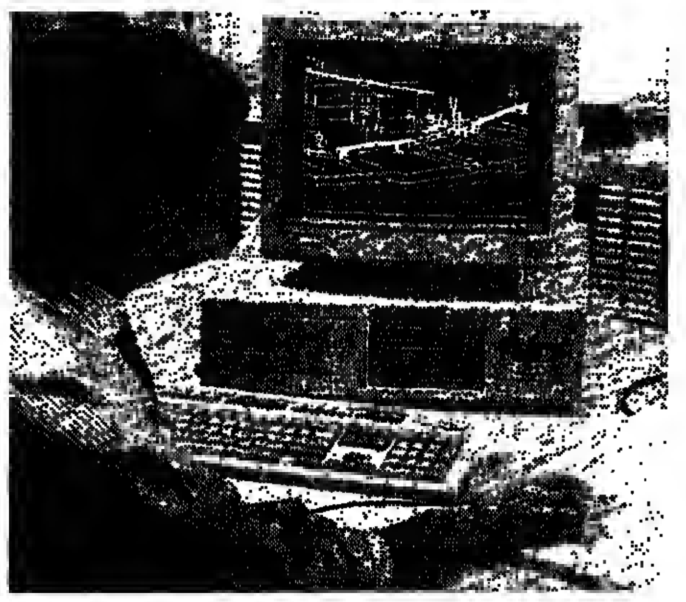
One of the most technologically advanced examples is at Lansing-Linde, the Basingstoke fork-lift truck producer, which recently introduced a CIM fabrication cell in partnership with ICL.

By linking engineering, scheduling and shop floor control, the cell has enabled Lansing-Linde to reduce the time taken to produce a chassis from 13 weeks to three. The heart of the system is ICL's Factory Data Control software, but the starting point was the development by Lansing-Linde, with the help of PA Consulting, of a manufacturing strategy.

"That illustrates an important, and long overdue, emerging trend in European manufacturing – a change in the role of computers from masters to servants.

Customers are realising that it is pointless investing in IT if there is no clear manufacturing strategy, and positively harmful if IT is superimposed on outmoded production practices.

According to Ingersoll, the computer industry's manufacturing customers are asking for systems which provide "topical (real time) information. They want systems directly addressing real control issues and comprehensively covering and integrating all the functions of the business. They no longer want data for data's sake."



Computer aided design on the desktop: entering new areas

The change in customer attitudes is a worldwide trend, and in Europe it is leading to a greater consistency in customer demands and in the development of individual markets, says Mr Anthony Gorely, industry marketing manager, manufacturing, for ICL Europe.

"Manufacturing companies are being driven by the same pressures wherever they come from," he says.

The European Community Single Market reforms are also spurring a convergence of Europe's individual markets. Mr Gorely notes that a number of ICL's larger accounts are active across a number of countries, and are looking for IT that helps them control increasingly sophisticated distribution networks.

There is an apparent conflict between the manufacturing customers' search for simplicity in IT and the suppliers' efforts to improve their competitiveness through differentiation and added complexity, Ingersoll notes.

Fortunately, however, most suppliers have realised that the industry is no longer technology-driven for its own benefit, but propelled by customers' demands for tangible gains.

The biggest single European market for IT in manufacturing is Germany, which is worth about £3.5bn a year, according to ICL. France and the UK come next at about £2bn apiece, followed by Italy at £1bn-£1.5bn.

The big players in Europe are IBM, Digital Equipment and Hewlett-Packard, but Nixdorf and Bull feature strongly in their home markets of Germany and France respectively. ICL has been strengthened by its link with Fujitsu of Japan, which took an 80 per cent stake in the company last year.

Although customer trends are converging, the maturity of individual markets varies considerably. According to Kent-based Benchmark Research, the number of UK engineering sites using a computer for manufacturing management applications rose from 40 per cent in 1984 to 55 per cent in 1990. But the majority of sites which have yet to invest are in small companies with only a limited amount of stock and production to track.

Consequently, the UK market for manufacturing management systems has become dominated by replacement and upgrade activity for some time. *In contrast, markets such as* Spain still offer considerable opportunity for suppliers to sell to first-time buyers of a manufacturing management system.

Reunification of the two Germanies is likely to strengthen the country's position as the IT industry's leading customer, but financial problems elsewhere in eastern Europe may restrict manufacturing industry's ability to invest.

ICL recently signed a significant agreement making it main supplier of IT to Skoda, the Czechoslovak heavy equipment group, but most other industrial companies in eastern Europe are too outdated for IT investment to be worthwhile.

Looking at Europe as a whole, the market for IT in manufacturing still looks reasonably buoyant, but is "a bit patchy," according to Mr Gorely.

In some cases, customers are delaying investment decisions because of the recession and high interest rates.

Inevitably, financial pressures spur companies to get the maximum value out of their computer investment, and the best way to do this is to integrate systems by linking computers to share data.

Hence the push towards CIM, which is being promoted at European level via Esprit, the EC's IT research programme started in 1984. Last month it was revealed that the UK government had hired a consultant for the first time to persuade companies of the benefits of collaborative R&D programmes such as Esprit.

Esprit's next Cime (computer integrated manufacture and engineering) programme runs between 1991 and 1994, and the government wants UK companies to take a fair share of the £175m available for joint projects, according to the FinTech newsletter *Advance Manufacturing.*

From the suppliers' point of view there is everything to be gained by moving towards CIM. The companies making money in the European market for IT in manufacturing are those, says Ingersoll, who are "successfully projecting themselves as system integrators capable of linking together separate modules and systems at business, plant and machine level through strategy development and customised software."

R&D is the industry's top priority, writes Guy de Jonquières

Money is not everything

OF ALL the priorities pursued by European policymakers in their attempts to revitalise Europe's information technology industries, none has consistently received more emphasis than stimulating research and development.

This preoccupation has led in the past few years to the growth of numerous officially-sponsored initiatives, at both the national and the European Community level, intended to encourage IT companies to pool their R&D efforts, particularly in the area of "pre-competitive" research.

In terms of money spent, the initiatives have undoubtedly achieved their objectives. Companies have queued up to join subsidised programmes such as the EC's Esprit and, according to the Commission, the European IT industry doubled R&D spending in the past four years. In 1989, Siemens of Germany had a bigger R&D budget than any electronics company except IBM, while the troubled Dutch Philips group spent more than any Japanese competitor except Hitachi and Matsushita – and more than Canon and Toshiba combined.

Furthermore, no fewer than six European electronics companies spent a higher proportion of sales on R&D than did IBM, while 12 spent relatively more than AT&T and Xerox of the US and NEC and Sony of Japan.

Yet the performance of the European industry has still to show any substantial improvement. Europe's IT trade deficit has continued to deteriorate in the past decade to more than $30bn in 1989, industry profitability is poor and there are still few fast-growing product markets in which European electronics companies are world leaders.

Some European Commission officials argue that more time is needed for results to materialise. But a more likely explanation is that the all the attention devoted to R&D may have obscured a much more fundamental challenge: how to get technology to market faster.

Fiercer worldwide competition has dramatically shortened IT product life cycles – in consumer electronics product lives are as short as 12 months. Unless companies manage the entire innovation cycle effectively, simply expanding R&D resources amounts, as Dr Ken Guy of the Sussex Science Policy Research Unit (SPRU) puts it, to "pushing on a string".

A case in point is Britain's Alvey programme, a five-year government-funded exercise in collaborative IT research which ended in 1988. According to Dr Brian Oakley, Alvey's former director, the programme enriched industry's technology base but failed to catalyse the development and sale of successful new products.

Dr Oakley blames Britain's restrictive macro-economic policies which, he says, discouraged the participating companies from making the necessary investments. But this criticism is not the whole story.

A forthcoming study of Alvey by SPRU finds much also depended on the way the participating companies were organised and managed. Those which got the biggest commercial bang out of their R&D bucks, it says, were the ones which involved senior management most closely in research and had the tightest links between research and production.

The study also concludes that though companies with large central laboratories generated technically superior research, they were often slower to get new products to market than were those which had pushed R&D down into their operating divisions.

Alvey is not an isolated example. Executives of many large European electronics companies with strong central research laboratories, such as Philips and Siemens, also fret about delays in commercialising their technology. In the US, too, many large companies have suffered from rigid internal divisions which slow innovation.

The US has been able to spawn IT innovations, nonetheless, thanks to the activities of venture capital-backed start-up companies, usually "spun off" from larger concerns. This phenomenon, most obvious in Silicon Valley, has promoted innovation in three ways. It has:

- stimulated the rapid diffusion of technological knowledge.
- allowed engineering, production and marketing resources to be tightly integrated within the same company, whose founders share a common interest in commercial success.
- enabled risks to be spread across many simultaneous projects, increasing the chances of success and limiting the consequences of failure.

In Japan, start-up companies have played only a minor role in the IT industry. However, larger groups have provided sustained impetus for innovation by paying close attention to stimulating the efficient flow and dissemination of information.

In Japanese companies, unlike their large western counterparts, all corporate functions – from design and development through production and marketing – are involved right through the product cycle.

The continuous feedback is further improved by the frequent rotation of staff between disciplines. Unlike their European counterparts, few Japanese companies have staff permanently dedicated to research: at Fujitsu, for instance, half the researchers in the central laboratory move to other parts of the company every 10 years.

Furthermore, large Japanese companies have multiple products under development simultaneously. However, the companies are also ruthless about scrapping those which run into delays of more than a few months. Hence, as in Silicon Valley, a "shotgun" approach to product innovation increases opportunities and limits risks. But while failure in the US usually means the death of the start-up company, in Japan only the unsuccessful products die.

This approach is alien to the European R&D tradition, where faith in laboratory breakthroughs as the key to competitive advantage has long caused more emphasis to be placed on basic science and the pursuit of fewer, bigger product programmes.

The problem with the European system is that it is poorly adapted to coping with the rapid change and discontinuities which characterise IT markets.

Large-scale development programmes which miss the brief window of opportunity for market leadership can turn into expensive mistakes.

In the past decade some large European companies have sought to speed up innovation by emulating the Silicon Valley model. Siemens has spun off some smaller businesses to their managers, while Olivetti has invested in small start-up companies.

However, Europe has provided less fertile soil than California for fast-growing new IT businesses. Furthermore, some experts argue that Silicon Valley-style individualism no longer works so well in an industry where innovation increasingly depends on combining incremental advances across a wide range of disciplines.

Hence, Europe's hopes of winning back lost ground may depend more on how far its bigger companies can match the success of their leading Japanese competitors in bringing technology to the market.

The need to address that challenge has clearly been recognised by Philips, which has finally been compelled by its recent financial crisis to start cutting away at the layers of bureaucratic fat which have weighed it down.

However, much will also depend on changing management culture, by breaking down long-standing internal divisions and and generating a new sense of urgency and team spirit. These are tasks which only Europe's IT companies can tackle for themselves. The big question is how much time they have left to do it.

COLLABORATIVE RESEARCH

Results are mixed

SINCE THE early 1980s, European governments hava responded to growing worries that Europe is falling behind America and Japan in information technology by launching large-scale collaboration programmes involving European manufacturers, telephona companies and universities.

But, with billions of Ecus at stake, there is now growing *concern that throwing money* at the prohlem is not enough. Over the four years from 1990 to 1994 the European Commission alone plans to spend around Ecu5.7bn on collaborative research, with mora money due from local government.

Worries have been compounded in the UK hy a recently-published critiqoe of the Alvey information technology initiative hy *Mr Brian Oakley,* who ran Britain's Alvey scheme from 1983. Mr Oakley said that while Alvey pioneered co-operation betweeo industry and universities and promoted a hroad range of advanced techniques, It failed to bring new, commercially-viable products to market.

Such criticism is also being levelled at the EC-sponsored projects, amid concern that no true technology success stories have emerged from tbe research. "What they really need is one huga success story", says an American analyst of the European collaborative researcb programmes.

Still less has collaboration given European companies the industrial fillip which Japanese companies enjoyed as a result of its government-sponsored VLSI programme in the *1970s.*

Mr Oakley's criticisms of Alvey highlighted the difficulties inherent in translating technological strength in tbe research laboratory into profitable products which claim an expanding share of the world market. Such worries are also voiced hy participants in the vast number of European collaborative ventures.

Mr Peter Bocker, of Siemens central telecommunications laboratories, in Munich, says that collaborative research has resulted in sophisticated telecoms chips being produced in the laboratories. "But we don't know whether these will be used later in real products."

Further worries are that EC technological support has been spread too thinly across too many projects and that joint research is inherently less efficient and harder to manage than single company projects, especially where researchers speak different languages.

But advocates of state-sponsored collahorative research programmes argue that, whatever their shortcomings, they constitute the most efficient policy instrument for the EC to promote competitiveness in European industry. They point to the figures which show that Europe's IT companies have doubled their own R&D spending as a result.

Perhaps more importantly, they say that naw technological developments today – such as the next generation of semiconductors – are so costly that no one company could do the research alone.

Whatever the downsides, *such research has helped to get* commercial companies to talk to each other and to help stimulate the dissemination of know-how between commercial companies, service companies, sucb as telephone operators, and academe.

Numerous projects are under way, each one hroken down into many research elements. Those which have achieved the highest profiles – and the largest budgets – are:

- **Esprit**, launched in 1984, which sponsors collaborative research in *information* technology. This includes microelectronics, information processing, computer integrated manufacture and home alectronics.
- **Race**, the definition phase of which began in 1985, and has the aim of establishing a strong EC manufacturing industry in hroadband communications. Under this umbrella is hroadband voice and data service, personal communications units and satellite communications.
- ***Jessi***, the *Ecu4hn Joint* European Submicron Silicon project in advanced micro*chips*, which includes *Siemens* and IBM among its members. Like Race and Esprit, Jessi is partly EC-funded.
- **Eureka**, a collaborative research framework which includes everything from IT *and communications* to medical technology, biotechnology, robotics, new materials and environmental technology. Unlike the other main projects, Eureka projects are funded by the companies involved and from national governments.

For some companies participating in Eureka no government money is forthcoming, which leads several observers to speculate whether the concept of private collaborative research is now flourishing. "If you pulled up any European IT venture, I bet you'd find they had a whole raft of private collaborative projects in place," says one.

They point to the decision by Siemens to team up with IBM to develop the next generation of memory chips, 64M bit devices, outside the framework of Jessi. And to the European Computer Research Centre (ECRC) in Munich, which was set up by Bull, ICL and Siemans to develop computing techniques useful to business management.

Six years into the project, the member companies appear happy with the results achieved so far, although it is only over the past two years that they have been able to see any real fruits from their investment of £20m.

Mr Charles Hughes, director of purchasing for ICL, says a factor influencing the project'e success is that the researchers work together on one site. "They take the work forward to the point where they can demonstrate its usefulness," he *concludes simply.*

Ironically, ECRC is now itself a recipient of EC funding for lts role in collaborative research with other organisations.

Della Bradshaw

Growing internationalisation blurs the European identity, writes Guy de Jonquières

Complex web of offshore alliances

IN THE early 1980s, information technology and electronics seemed to offer boundless horizons of expansion and industrial regeneration to a Europe troubled by sluggish economic growth and beset by the problems of declining businesses such as steel and shipbuilding.

Even governments opposed in principle to intervening directly in industry – most obviously the Thatcher administration in Britain – grasped at the opportunity to throw their support behind a sector which appeared to incorporate so much promise.

Yet by the end of the decade, much of the early glamour had worn off. At both the national and the European Community level, the focus of policy had shifted from ushering in a bright new dawn to preventing weak European computer and semiconductor industries from being eclipsed by superior US and Japanese competition.

This turn of events raises basic questions about the direction of European policy in the 1990s. Should it remain geared primarily to promoting the interests of indigenous, European-owned producers?

Or should it accept that in a number of areas the battle has effectively been lost, and that the goal of European self-sufficiency in the main branches of IT is largely unattainable?

The European Commission's IT directorate leans strongly in favour of the former option. Arguing that IT is central to economic prosperity, directorate officials warn that support for European suppliers is essential if the Community is to avoid technological dependence on US and Japan which would lead to higher unemployment and loss of competitiveness across a wide range of industries.

A recent paper from the directorate recommends that, as well as pressing ahead with standardisation, training and joint research, the EC should boost demand for IT suppliers by investing in Community-wide electronic networks and maintain anti-dumping actions against Japanese exporters.

However, there are doubts about this approach elsewhere in the Commission, where some senior officials question whether IT is such a special case as to justify what they consider to be suspiciously dirigiste policies.

Not only do such policies run counter to the Commission's diminishing enthusiasm for sectoral intervention in general. Many in Brussels also believe that subsidies and trade protection have weakened European electronics companies by sheltering them from competition.

The task of formulating policy is complicated by wide divergences between EC governments. At one end of the spectrum, France strongly favours measures to promote an EC drive in technologies such as High Definition Television and stands behind its own state-owned companies in computers, consumer electronics, defence and microchips.

While state ownership of the IT industry in other EC countries is less pronounced, many are also committed to supporting "national champion" suppliers.

The Dutch and German governments, for instance, are generously subsidising the microchip businesses of Philips and Siemens respectively.

Production of less sophisticated components has been steadily shifting from Europe to low cost locations in the Far East

These attitudes are in marked contrast to UK government policy, which has steadily moved away from supporting British-owned IT companies towards the encouragement of local investment by their overseas competitors, in particular from Japan.

In the past few years, the UK's largest producers of computers, telecommunications equipment and consumer electronics have either withdrawn from these businesses or have been taken over.

The process culminated late last year in the sale by STC of control of ICL, Britain's biggest computer maker, to Fujitsu of Japan and the acquisition of STC by Northern Telecom of Canada. The ICL deal proved something of a watershed. Accepted in Britain as an inevitable step by a company in need of a stronger partner, it was severely criticised by other European IT suppliers and by some IT policy makers in Brussels, who viewed it as a betrayal of European solidarity.

Following the takeover ICL was asked to leave the European IT Roundtable, the main industry lobby group, though the company will continue at least for the foreseeable future in collaborative EC programmes such as Esprit and the Joint European Semiconductor Silicon Initiative (Jessi).

However, the controversy surrounding the deal also served to highlight awkward questions confronting European policy. The most important of these is the increasing difficulty of defining the "European" companies which the policy is supposed to benefit.

While no other EC government would probably accept as readily as Britain a Japanese takeover of a leading national electronics company, several developments are making it increasingly hard to sustain an IT policy which views the interests of Europe largely in terms of European-owned producers.

First, the number of European-owned IT companies has shrunk rapidly in the past decade, and several face difficulties which are straining even the most committed government sponsors. Even in France, the industry ministry is becoming impatient at the mounting losses of Bull, the state-owned computer maker, and has suggested that the company should find a partner.

That may not be easy. Attempted mergers between European computer companies have frequently foundered in the past on arguments over management control. Even when mergers have proved possible, they have often brought together sub-scale companies with similar weaknesses.

Secondly, in spite of officially-sponsored EC collaboration, European companies have become increasingly reliant on US and Japanese competitors for key technology and products.

For instance, after Siemens failed to develop its own 1MB D-Ram memories, it turned to Toshiba of Japan to provide the necessary technology. Since then, Siemens has cooperated increasingly closely with IBM on D-Ram technology, and some of the German company's most advanced development work on its latest chips is being done in IBM laboratories in the US.

Long before ICL was taken over by Fujitsu, it had come to depend on the Japanese company for the most important chips in its computers, while Thomson relies on collaboration with JVC to make the videorecorders it sells. Many European electronics companies also buy from Japan and sell under their own brand name products such as facsimile machines, copiers and personal computer printers.

The third challenge stems from the rapid growth of local EC production by non-European electronics manufacturers. Indeed, in sectors such as semiconductors, computer printers and mobile telephone equipment, many of the biggest investments in Europe are being made by Japanese and US companies.

At the same time, European-owned producers including Philips and Thomson have been rapidly shifting the manufacture of less sophisticated electronics products out of Europe to the Far East.

Ironically, the growth of foreign-owned plants in Europe, particularly those belonging to Japanese companies, has been encouraged by EC anti-dumping and local content policies. By discriminating against imports, these have given Japanese companies a strong incentive to produce locally.

Furthermore, anti-dumping duties have led to increases in the prices of many of the products on which they have been imposed, boosting Japanese profits on sales in the EC.

The steady influx of inward investments is likely to mean that an increasing proportion of Europe's future output of IT products is generated by companies which are not European-owned. It is also likely to subject European-owned companies to increased competition on their own doorstep.

The growing foreign presence appears to have been an accidental by-product of EC actions, not a deliberate aim. Officials in Brussels and in many national capitals view it with mixed feelings, arguing that foreign-owned IT manufacturers will never display as much commitment as indigenous companies to developing Europe's technological base.

Nonetheless, European policy is likely to find it hard to take account of these trends, which reflect both the weakness of European producers and structural changes in an industry for which national and regional boundaries are steadily losing importance.

FOREIGN DIRECT INVESTMENT

US and Japan step up local production

JAPAN will become the world's second largest outward direct investor after the US by the mid-1990s, according to some academic estimates, and the information technology industry will be an important part of this growth. Japanese companies ranked third in foreign direct investment (FDI) in 1987 and have increased their holdings fivefold since then, much of them in Europe.

Other Asian countries are also active, particularly Taiwan and South Korea. But the biggest player in IT in Europe is still the US. The top three recipient countries of US FDI in electrical and electronic machinery (UK, Germany and Italy) account for just under $2bn in American investment stock in Europe, twice the level invested by Japan in its top three: the UK, Germany and the Netherlands. International Business Machines alone had revenues in Europe of $23bn in 1989, representing 39 per cent of its $62.7bn worldwide turnover and 71 per cent of its $3.76bn net income.

Sony aids UK's record trade surplus in colour television sets

Supplying local and regional markets and tracking changing customer requirements are the principal reasons for new and ongoing FDI. As Stephen Thomsen and Phedon Nicolaides of the Royal Institute for International Affairs put it in a forthcoming book on the Japanese: "For industrial countries, it is not the abundance of natural or human resources which attracts foreign firms but rather an abundant supply of wealthy, discriminating consumers."

The established end-user market is, of course, an important one. Dell Computer Corporation of the US, for example, last autumn announced plans to set up a factory in Limerick, Ireland, to manufacture computers for the European market. Sony makes in Europe nearly all the televisions it sells there, and is chief among the UK-based foreign manufacturers which last year gave Britain a record trade surplus in colour sets in excess of £131m, up from £58m in 1989.

Subsidiary markets are growing in importance. Thomsen and Nicolaides note that some recent Japanese FDI has been by sub-contractors which "are almost guaranteed a market by the transplant firms that have preceded them".

Indeed, the primary initiative can come from customers. Harris Corporation of the US said last September that it had decided to establish a semiconductor testing and assembly operation in Plymouth, Devon to employ 200 people, after European customers asked for a local source of supply. Harris, which also intends to build a second, larger plant in Plymouth in the mid-1990s to make chips, included among its European customers GEC Avionics, Racal and Lucas Industries of the UK, Bosch of West Germany, Ericsson of Sweden and Airbus Industrie.

Companies have been actively using investment abroad to facilitate ever-more-sophisticated service demands from customers who themselves operate across frontiers.

One of the changes involves the appointment of an international marketing executive to support customers who are trading multi-nationally. The idea is to provide a single point of contact in the customer's home country and a decisive mode of enlisting the co-operation of IBM's people and resources in each of the countries in which it operates. At its most efficient, this way of following the customer across borders is only open to companies which have done their investment spadework in infrastructure and personnel beforehand.

While manufacturing and service are the most important reasons for IT FDI, gains have been made in technology transfer and the meshing of skills. Acquisitions play their role. When Fujitsu took over Britain's ICL, the computer maker, in July last year, one effect of the deal was to marry the Japanese company's experience in hardware with ICL's software skills.

Further, start-ups from scratch – "greenfield" investments – favoured in manufacturing, have been finding a place in research and development with increasing frequency. It is a case of brains being tapped in host countries in the way transport networks and geography have previously been exploited. Again, the Japanese are keen players. Sharp Corporation's laboratory at Oxford – its first to do basic research outside Japan – is involved in artificial intelligence and opto-electronics. And Toshiba has earmarked £800,000 a year for a research centre in Cambridge to do basic research into semiconductor physics under the direction of Professor Michael Pepper of Cambridge University.

For all the undeniable forward momentum of FDI, there remain challenges and problems as the relationship develops between foreigners and regional public policy – including access to publicly-funded, multi-lateral research programmes. The Japanese are excluded from the Joint European Submicron Silicon (Jessi) initiative. But, to cite only one voice, Mr Tomihiro Matsumura, executive vice-president of NEC, the leading supplier of personal computers in Japan, has argued that his company ought to be able to participate in Jessi by virtue of NEC's base in Scotland, where it makes semiconductors.

Similarly, there are problems as overall economic growth slows. Mr Brian Atkinson, secretary general of the London-based Electronic Components Industry Federation, notes of the semiconductor market: "I wouldn't exactly say it has fallen off a cliff since the end of last year, but there have been a number of external pressures brought about by recession. In 1989, it was thought the semiconductor market would grow by 16 per cent a year; that has had to be revised."

There is qualified optimism about sales to Eastern Europe

Nonetheless, the insistent approach of the 1992 Single Market in Europe continues to lift foreign investors' eyes to the horizon. According to Mr Peter Sachs, director of the Electronic and Business Equipment Association, "there is a shift in perceived benefits going on now".

"People see that the boundaries are of all the 12 [EC countries], not just national boundaries. They are looking for the best site in Europe – for distribution, human resources, industrial relations. That was not in the calculation when the current establishments were built, but it will be in the next generation of plants."

The potential eastward extension of viable European markets is a further cause for qualified optimism. Says Mr Sachs: "The market in the east is a huge prospect. But [those countries] know they must set up a communications structure before the investment comes. There will not be much investment until they are capable of buying the factories' products."

Peter Miller

Leading European-owned computer makers are struggling for profitability, says **Alan Cane**

Newcomers pose a challenge to the big battalions

EUROPE'S computer manufacturers last month decided that International Computers (ICL), now part of the Japanese Fujitsu group, was no longer a fit member of their small and exclusive club.

They announced that the UK-based computer manufacturer had been asked to leave the European Information Technology Round Table, a lobby which for more than a decade has sought to represent the interests of European IT suppliers in matters of high policy. It was important, they argued, that the group should consist of companies which were "truly European-owned".

The decision, and the thinking behind it, goes some way to explaining what is wrong with the European computer industry and why it seems to be facing inevitable decline.

The reasons include:

- Vulnerable, fragmented markets which afford poor economies of scale.
- Preoccupation with European ownership and "national champions", at odds with the emerging pattern of the world computer industry.
- Shortage of capital to fund research and development.
- Shortage of large scale projects on which to whet systems integration skills.
- Enthusiasm for protection from Brussels in the face of strong US and Japanese competition.
- Slowness to respond to major industry trends – especially "open" systems. Ironically, ICL, even before the Fujitsu takeover, was virtually the only European company making respectable profits from its computer operations.

ICL, even before the Fujitsu takeover, was virtually the only European company making respectable profits from its computer operations. It is in many ways the model of what a modern computer company should be

It is in many ways the model of what a modern European computer company should be. It has achieved a good match between expenses and sales. It has moved substantially to open systems, combinations of hardware and software which make it easy to connect together computers from different manufacturers and run software from different suppliers.

It maintains its own hardware and software design capabilities while taking advantage of Fujitsu's microelectronic manufacturing expertise for their realisation. And, despite being a comparatively small player in world terms, it has a strong position in niche markets including retailing and local authority systems.

By comparison, leading European-owned companies are struggling for profitability.

Siemens, the German electronics giant, was profitable in computers until 1990 when it took over the ailing Nixdorf Computers, spinning off the computer interests of the two companies into Siemens Nixdorf Information Systems. After absorbing Nixdorf's huge losses, the new company is not profitable, but Siemens hopes it will be in the black within two years.

In the meantime, it has no further plans for large-scale acquisitions in Europe: "Siemens alone is not able to solve the problems of the European computer industry," Mr Hermann Franz, Siemens' chief corporate strategist, told the Financial Times recently.

Olivetti of Italy, which at one time seemed Europe's best hope for a leading position in personal computers, is struggling to bring expenses in line with slowing demand for its products.

It is still profitable, but at a much reduced level compared with earlier years. Seven thousand jobs are being trimmed from the workforce and manufacturing operations rationalised as part of a strategic plan to restore competitiveness.

Groupe Bull of France, (whose international arm, Bull HN is part owned by Honeywell of the US and NEC of Japan) which lost a record $376m in the first half of the year, has announced a plan of "acceleration and transformation" to restore the company to the black by 1992. Analysts believe that to be an ambitious aim.

The plan calls for a substantial reduction in costs through plant closures, staff reductions and the introduction of a single group organisation for research, development, design and manufacture.

Most surprising, perhaps, Philips of Holland announced that losses for 1990 would be more than £1bn, chiefly in its semiconductor and computer systems divisions. Its plans for recovery include large scale redundancies and moves to open systems.

The cause of what Mr Vittorio Cassoni, managing director of Olivetti, describes as "the most disruptive crisis" in the life of the information technology industry is a fundamental restructuring of the global computer industry.

Siemens was profitable in computers until 1990 when it took over the ailing Nixdorf Computer

The advent of low cost but very powerful computers based on the latest design of microprocessors has caused a schism. On one side is the "old" industry, manufacturing and marketing high cost, high margin mainframe and minicomputers chiefly through an extensive direct sales force. The "new" industry, on the other hand, comprises a heterogeneous group of companies, some of which manufacture hardware and others which take those products, add value in the shape of specialised software and market them to customers.

The manufacturers in the new industry build systems from freely available components to industry-agreed designs. Gross margins are narrow but products are marketed through "channels" – distributors and dealers – rather than a direct sales force.

For example, Compaq, a high performance personal computer manufacturer which is a founder member of the new industry, sells exclusively through dealers.

International Business Machines, the world's leading computer manufacturer and the embodiment of the old order, has been making strenuous efforts to align itself with the new industry parameters and has had to follow Compaq's example. Now it too, markets personal computers only through the distributors and dealers.

The strategic plans that Europe's manufacturers have been rolling out over the past few months are designed to enable them to make the change from old industry to new before they collapse under the weight of their own superstructures.

Mergers or acquisitions to achieve economies of scale have been seen as one way forward but these have never proved easy in the European cockpit.

ICL's deal with Fujitsu was only concluded after talks with its European competitors, Olivetti in particular, had fallen through. Siemens' merger with Nixdorf was seen as representing German pressure for a German solution to Nixdorf's problem rather than commercial logic.

The time for large scale mergers between European companies seems to be over. Each of the European players has set out its battle plan and intends to go it alone, at least for the time being. But in the long run they may have to follow ICL's example.

SEMICONDUCTORS

Area of special strength

THE Japanese have captured the market for memory chips. The Americans hold a commanding position in microprocessors, the brains of computers.

What, if anything, are Europeans good at?

A clue was provided in a recent market survey by Dataquest, the high technology consultancy. The survey showed that European-owned companies increased their international semicondnctor market share to 10.5 per cent last year from 9.5 per cent in 1989. Most of the growth was achieved at home. The companies' share of the European market was 38.2 per cent last year, an increase of 1.7 per cent over 1989.

One of the reasons for the increase was the sharp fall in the price of memory chipa, which reduced Japan'e market share. But there was also some evidence of genuine European strength. The Europeans' success came not from their skills in any particular type of chip, but rather from the power of soms of the local industries. Europe is still strong in consumer electronics, with companies like Thomson of France, Philips of the Netherlands and Nokia of Finland.

The consumer electronics companies were boosted by last year's World Cup, which increased the demand for television sets and video cassette recorders. European chip manufacturers snpplying thess industries benefitted too.

Europe also boasts strong telecommunications organisations such as Alcatel of France, Siemens of Germany and Ericsson of Sweden. Telecommunications equipment contains an increasing quantity of computer chips.

Europe's transport and power supply industries are large consumers of semiconductors

There are other European industries which have provided a boost to local semiconductor manufacturers. Mr Jim Eastlake of Dataquest says that Europe's transport and power supply industries are large consumers of esmiconductors. European chip makers have also benefitted from factory automation and semiconductor purchases by the car industry.

Europe'e chip makers have other causes for satisfaction. The merger of Italy'e SGS and Frances Thomson has proved an organisational success. Siemens has won a healthy slice of the market for dynamic random access memory (D-Ram) chips, the fundamental building block of ths electronics industry. Despite these successes, Europe'e chip manufacturers have serious worries. The first is that their growing market share has not been matched by a corresponding growth in profitability.

The electronic components division of Philips, Europe's leading chip maker, lost Fl125m ($76m) in 1989. Last year, the company announced a significant scaling back of its semiconductor ambitions. It said that it was stopping pilot production of one-megabit static random access memory (S-Ram) chips, in which it had invested more than Fl 1bn ($606m) since the mid-1980s. It also resigned as the leader of the S-Ram project of the Joint European Submicron Silicon (Jessi) initiative, Europe's most important semiconductor research programme.

Mr Hans Friedrich, director for special semiconductor projects at Siemens, concedes that his company's memory business makes no money. SGS-Thomson barely breaks even.

Also of concern is the invasion of the Europeans' home territory by a host of US and Japanese chip companies. Motivated hy e desire to be part of post-1992 Europe, to tap into a large market, and to evoid protectionist measures, outsids investors are busily constructing chip plants throughout Europe. Fujitsu of Japan is building a plant in the north of England, joining its compatriot company NEC, which is already established in Scotland. Intel of the US has chosen the Republic of Ireland as its manufacturing base. Mitsubishi and Hitachi, both of Japan, are setting up in Germany. Texas Instrumsnts of the US, which is already present in Europe, is building a new factory in Italy.

The consumer electronics companies were boosted by last year's World Cup

The new plants do not pose a direct threat to the European-owned companies. Apart from the Intel plant, all the factories will manufacture D-Rams, an area in which only Siemens is active. Few doubt, however, that they will eventually manufacture other, more complex, chips in Europe. Mr Takao Negishi, European director of the Electronic Industries Association of Japan, says: "That's the common Japansse approach, to go for e segment of the market in which they're strong and thsn afterwards spread their product range."

The new arrivals, together with long-established US companies like Motorola, present European-owned manufactursrs with another dilemma: should they be allowed to participate in programmes such as Jessi and other publicly-funded projects such as Esprit?

ICL, the British computer maker, was expelled from the European Information Technology Round Table, an influential lobby group, last month because the company is now 80 per cent owned by Fujitsu of Japan. Jessi is still debating whether ICL should be permitted to retain its membership. But IBM of ths US has also been allowed to participate in Jessi projects and there are signs that other foreign-owned companies may be admitted.

Mr Raimondo Paletto, Jessi's president, said last year that the programme was not a fortress. "If foreign companies make a strong commitment to research in Europe, have their factories in Europe and if those factories face the same conditions that European companies face, I think it would be right for the Jessi board to consider allowing those companies to participate."

Philips agrees that if companies do research and development in Europe, as well as manufacturing, the nationality of their ownership should not bar them from participation in publicly-funded programmes.

Michael Skapinker

DEREGULATION OF TELECOMS

A variety of responses

DEREGULATION of telecommunications networks began in the US as a response to the inability of a monopoly to cope with rapid change.

Competition in telecommunications had become essential to support an economy increasingly driven by information instead of production.

In the past decade the concept has spread across Europe, where it has had a different response in different countries. Britain has been the European leader; yet so far even here it can hardly be said to have been a complete success.

Privatisation began to change the culture of British Telecom, but most have seen BT as a reluctant participant in the revolution rather than its leader.

Its David and Goliath battle with the much smaller Mercury has brought the latter a significant minority share of corporate business and transatlantic and trunk routes.

But the pricing formula imposed on BT has done nothing more than restrict it from obvious *exploitation of its position* as a virtual private monopoly across most of the market.

BT has not been forced by competition into a general lowering of prices, according to Mr Andrew Johns of National Utility Services, which monitors telecommunications and other utilities on a world-wide basis. He says the UK is still an expensive country in which to make local calls.

Oftel, the industry watchdog headed by Professor Bryan Carsberg, is generally thought to have had only limited success in making BT more competitive.

Now deregulation is into a new phase. A White Paper on the duopoly review was expected to introduce a virtual free-for-all for entrants to the network.

It is uncertain how many of those companies which aspired to being the third licensed carrier will want to join with no guarantee of survival.

One possibility is that new alternative carriers with their own lines, such as British Rail and the utility companies, will start to run trunk call services, while the cable television companies and Regional Bell Operating Companies will operate some local services.

But new legislation will not bring a sudden end to BT's dominance. This will depend on the ability of competitors to take a sizeable proportion of BT's local customers. Mobile systems, personal communications networks and cable *may* be the means of achieving this.

The UK has been *ahead of* the European Commission in its thinking on deregulation, but it was the Commission's 1987 *Green Paper* which formed the blueprint for telecommunications within the Single Market.

Most of its proposals have either happened or are going to happen, according to Mr David Rumble, a director of telecommunications experts PA Consulting.

But in most of Europe the Commission's directives have not been warmly welcomed. A policy of ensuring minimum provision of a universal phone service has generally been favoured over the need for technological progress and greater competition.

State monopolies have used the social policy argument to prevent attempts to upset the *status quo*. In most countries, that resistance looks unlikely to be overcome quickly.

The Commission backed off requiring an end to monopoly state control of voice services and permitted telecommunications regulators to remain under the wing of government.

So France decided to keep its telecommunications network state-owned, partly because the government was convinced it could run a monopoly more efficiently than it could manage a competitive environment and partly because of strong trade union lobbying.

The French government still uses the price of phone calls as a way of intervening in the market to *control inflation*.

Advocates of the French approach argue *radical* restructuring is unnecessary and point to France's considerable technological advances of the past decade under a monopoly, especially in converting to digital systems and in promoting videotex. In response it could be said that centralised control has meant France has lagged in some important areas such as mobile phones. Also some would argue that it was only the threat of competition which pushed *France Telecom* into a progressive strategy.

All the other European countries have so far followed the *French* rather than the British example in running their main network. But the Commission has initiated change in value-added network services (VANS). The Open Network Provision policy says that all VANS providers must have equal access to the infrastructure.

How far competition in VANS will extend is uncertain. More progressive countries such as the Netherlands have been implementing the rules, while conservative countries have been reluctant.

However, Mr Bernie Clements of management consultancy Butler *Cox predicts* that France will introduce sweeping liberalisation of telecommunications, especially VANS, after the 1995 *presidential election*.

The Commission has also urged member *states* to *grant* licences to another mobile *operator as* well as the *state* organisation. Germany and the *Netherlands have done so and* even otherwise conservative *countries such as France*, Belgium and Spain are proving *compliant* in this.

This could be because, they view mobile systems as *secondary* and not a potential threat to the main network.

Mobile and PCN – the new personal communications networks based on pan-European digital cellular technology from the Groupe Spéciale Mobile – are still unproven technologies. There will almost certainly be some business failures. But in the next decade they could make a substantial impact on state monopolies.

Then there may be backpedalling on liberalisation. This may be starting to happen in Germany, which has been a keen deregulator in the past few years.

George Black

TELECOMS EQUIPMENT

Approach to a unified market is very slow

DEREGULATION of telecommunications equipment has advanced in parallel with deregulation of the networks across most of Europe. It has been similarly spasmodic.

Deregulation of supply is hoped to bring benefits to the user in wider choice and lower prices *and* to the *supplier in* a larger, more unified market. It is generally *agreed* the first objective can be achieved; but the second is more doubtful.

A unified market depends entirely on the will of the European member states to implement the new rules; and even if it is achieved it is debatable whether European manufacturers will benefit.

For the consumer, the UK is now a model market – anyone can go into a high street shop and choose his own phone, answering machine or fax from a range of manufacturers.

Until the mid-1980s all equipment had to be supplied by British Telecom; after that the rules changed rapidly, from BT having to approve the equipment to a virtually free market.

There are now more than 500 types of phone available in the UK, many of them marketed by small companies, and they are much cheaper than five years ago.

The rest of Europe has been happier to copy the UK in this respect than to allow competition between carriers, but the picture is still patchy.

In Germany, the Netherlands and Spain deregulation of the equipment market has been introduced. But in France only the state body can approve equipment and it has not been keen to grant licences to non-French concerns.

France is seen as the main conservative, supported to some extent by Belgium, Italy and Greece.

For manufacturers, Europe's once strong and profitable position in telecommunications *looks increasingly under threat* from the US and the Far Eastern countries.

The UK's independent role in *that sector is all but extinct*, since the takeover of STC by Northern Telecom and the merger of GPT into Siemens.

The European Commission believes that deregulation of the market is essential to protect Community manufacturers.

It aims to get rid of the inefficiencies inherent in having 12 separate telecommunications markets each with its own rules and to create a single market on a scale comparable with the US and Japan.

To achieve a genuinely open market in equipment supply requires not only an open procurement policy but also a set of European standards and mutual recognition of testing and certification methods.

Neither of these is yet fully established, so it remains very hard for manufacturers to sell into other Community countries where there is an overwhelming tendency to buy home-grown goods. The benefits of deregulation to manufacturers are therefore still a long way off.

Next year the European Commission's new rules on open procurement are supposed to take effect. They lay down, among other things, that manufacturers from all member states should have the right to bid for contracts to supply new phones systems to public bodies within the Community.

Legal instruments are being put in place to ensure fair play. There will probably be major test cases in the next couple of years.

How the new rules work in practice will be a major test of the success of the 1992 initiative as a whole. The main issue is whether 1992 will really bring an open market or whether it will simply make it easier for those from closed markets to penetrate open ones.

Girobank customer handles account from his car

The conservative faction has been doing everything possible to water down, delay or thwart the Commission's directives. Progress is being held up by the move of the French and others to challenge the European Commission's political powers in the European Court of Justice.

At the same time, the resumed Uruguay Round of the GATT (General Agreement on Tariffs and Trade) talks will provide another chance to muddy the waters.

The conservatism of the French and their allies is based mainly on a fear that the Single Market could lead not just to the dismantling of internal barriers but to an influx of equipment from the US and the Far East.

In particular, they fear the impact of Japan with its ever more dominant position in advanced chip technology and its cheaper production facilities.

At the top end of the telecommunications manufacturing market it is globalisation which is now the driving force. It is generally recognised that the next generation of public switches will cost so much to research and develop that the manufacturer will need to gain at least a fifth of the world market to justify staying in the business.

This means, in other words, that there will probably be only five players in a few years. Experts expect AT&T of the US and NEC of Japan to be the leaders; the others could include Alcatel, Siemens, Ericsson and Northern Telecom.

European barriers have little relevance in this context since it is global alliances which will count. Without international partnerships in this field no one can survive. That is why the French Alcatel has joined with the American ITT to form one of the largest telecommunications organisations in Europe.

The Commission's new rules seem unlikely to create a Fortress Europe, excluding non-European manufacturers from the Community. AT&T has European partners which will make it effectively European for 1992 purposes.

Other US and Far East producers have taken steps to ensure that they are treated as local companies, either by forming European alliances or setting up a factory in a Community country.

But it is at the bottom end of the market that European manufacturers have succumbed most seriously to international competition, mainly from the Far East.

The worst fears of the French are being borne out here. The fax market, open to all comers a decade ago, today belongs almost completely to the Japanese.

Phones could go the same way; more and more of Europe's phones and other low-cost telecommunications equipment will probably come from the Far East, even though patriotism and local preferences may impede the trend.

The cost advantage of producing phones in the Far East outweighs any tariffs; a large part of British Telecom's phones already come from South Korea.

So for manufacturers the risks of deregulation seem evenly balanced with the opportunities.

George Black

PHILIPS

New toughness emerges

IN ITS struggle to slim down and return to profitability, Philips, the Dutch electronics group, has concentrated on its loss-making computer and semiconductor divisions.

Under its new president, Mr Jan Timmer, the company has moved quickly to cut thousands of jobs, pull out of unprofitable areas of the information technology business and close down expensive, prestigious research projects.

Mr Timmer, who was hastily made president in July after his predecessor had lost the confidence of the financial markets, has made clear that Philips can no longer afford to spare any "sacred cows", including information technology, in its search for financial health.

His pronouncements were spurred by poor figures for 1989 and for early 1990 which showed that losses in computers and components were dragging down the overall performance of the Philips group, which is the world's biggest manufacturer of products ranging from light bulbs to colour television sets.

Mr Timmer's first move was to announce the elimination of nearly 5,000 jobs in the company's information systems division, reducing the 15,000-strong workforce by a third. In components, he also cut 4,000 jobs out of a total of 35,000, mainly in the Netherlands and other parts of Europe.

These measures, which mark a break with Philips' paternalistic past, are probably less radical or surprising than the company's dual decision to pull out of the main part of Jessi, Europe's leading semiconductor research project, and to stop pilot production of one-megabit static memory (S-Ram) chips.

Philips, which had invested more than Fl 1bn in S-Ram research since the mid-1980s, said it saw little prospect for reaping profits in this sector because of price erosion.

This new emphasis on profits is a change from the days when Philips felt duty-bound to stay in the vanguard of technological developments to ward off Japanese and US domination of the semiconductor industry.

A further sign of the company's new policies was its virtual withdrawal from three other types of components where Japanese competitors have already taken the lead in world sales – liquid crystal displays for laptop computers, semiconductor lasers and image sensors.

As part of its revised information technology strategy, Philips is focusing on providing computer networks to banks, industry, government agencies and the service sector, areas in which it has traditionally been strong.

It is also hoping to catch up in personal computers where its European market share is minimal. At the same time, Philips is increasingly prepared to buy in software and hardware from other manufacturers to respond to customer demand for "open systems" based on industry-wide standards.

For the time being, Philips has abandoned attempts to arrive at partnerships with other computer groups, preferring to concentrate on putting its own house in order.

In January, however, the company reorganised its sprawling components division by placing its semiconductor activities into a new and separate product division. The company said the new structure would enable it to respond more rapidly to changes on the intensely competitive semiconductor market, but analysts noted that it would also make it easier for Philips to transfer its semiconductor business into a joint venture or partnership with another manufacturer.

Ronald van de Krol

There is increasing doubt whether computer services should be provided in-house

New premium for human brain-power

COMPUTERS are cheap, people and skills are expensive. This basic equation triggered many of the seminal movements of the computer industry during the late 1980s. Some of those movements, including standardisation, programmer productivity, and Open Systems, have contributed to the rapid growth in Europe of the computer services industry.

In the early 1990s, the recession forced companies to look closely at their IT budgets at a time when information technology is expected to make a contribution to the core business as never before.

Top managers no longer question whether these expensive people and huge infrastructures of computing are necessary. But there is increasing doubt whether these skills should be provided in-house.

Rather than "outsourcing" piecemeal parts of the IT operations, some users choose complete facilities maintenance, FM, in which a client bands over its entire operations to a specialist provider and is able to wash its hands of the problems of finding, keeping and paying for those scarce IT skills.

For all levels of the computer industry, starting with the user companies, the problem of providing the right skills is pivotal. Staff training is expensive and key employees who have grown an in-house mix of skills concerning a specific application, proprietary systems, or installation, are practically irreplaceable.

What you buy now matters less than from whom you buy it. For many organisations who used to rely on the high margins selling boxes, the provision of computer services could be their salvation. Hence the deliberate development of "value added" products, niche markets and services.

Today's ideal IT employee is the "rounded up" person, who shows an appreciation and understanding of business tactics and goals as well as the necessary technical skills. For highly qualified, very experienced IT people, there is often no career-path inside user-organisations. It makes sense for them to seek the challenges and rewards of working for third-party ekills suppliers, where the depth of experience can benefit many sites.

Over 10 years ago, Berkhamsted-based Synapse Computer Services pioneered third-party servicing of IBM systems software by forming a pool of rare and valuable IBM systems skills. Besides providing long-term support, its specialists nurse customers through such tasks as upgrading from one operating eystem to another, an area in which very few user companies could summon in-house experience.

Synapse etarted exploring European opportunities three years ago, particularly in meeting the needs of large corporations to "downsize" and implement standards across Europe.

Shell subsidiary Wavin, a large plastics manufacturer, used Synapse's installation audit service before deciding to devolve its operations on to Unix machines, establishing centres in Denmark, Holland, the UK, Germany and France.

Another company which puts great emphasis on the long-term "business partnership" is Olivetti Systems and Networks. Across Europe, 40 per cent of OS&N's revenua comes from services.

In the UK, Barclays chose third party maintenance from Olivetti S&N when seeking economies of scale in maintaining more than 200,000 pieces of equipment.

Centralisation of the support has brought the expected benefits, plus a few spin-offs in the area of efficiency and smooth running. Barclay's Central Retail Services Division has just followed suit.

EDS and Hoskyns have long backgrounds as service companies, and particularly facilities management (FM); the management of all or part of an organisation's IT services. "It's a long-term relationship, and it's essential to understand the business," commented Hoskyns' marketing director of FM, Peter Falconer.

The large US-owned EDS company, for whom 100 per cent of revenues come from services, also sees a shift in emphasis. A broad-based specialist in large-scale integration, EDS has capitalised on its experience, providing complete services to its General Motors parent to grow its market share in Europe.

Claire Gooding

SOFTWARE ENGINEERING

The tools of the future

EUROPEAN companies see information technology as a crucial part of their plans to meet the challenge of the new Europe in the 1990s. At the technical level, this means cultivating the skills to enable them to build new computer software applications quickly and efficiently.

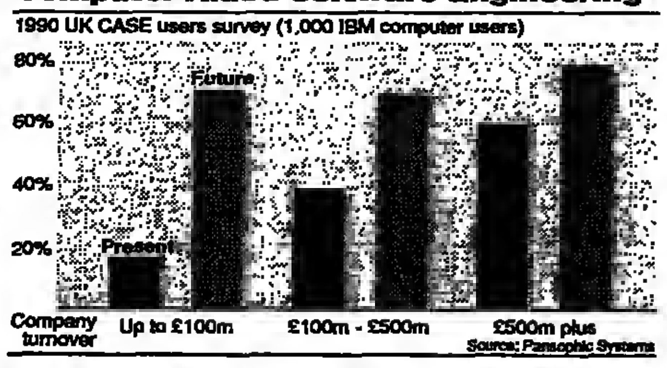
The economic changes in Europe coincide with fundamental changes in information technology. These changes include the way that businesses see their use of the technology, the nature of the computer hardware and the way that they build software.

In place of a computer system's traditional role as a support for business operations, it is increasingly seen as a way to gain competitive advantage in the market. At the same time, distributed networks of smaller computers are replacing central mainframe computers and new tools to smooth the software development process are being used.

Computer-aided software engineering (CASE) is one of the main technologies to have emerged in the last decade and its use looks set to increase. A recent survey of 1,000 IBM computer users in the UK, conducted by the software company Pansophic, suggests that the growth in the use of CASE tools will increase considerably in the 1990s.

Computer-Aided Software Engineering

1990 UK CASE users survey (1,000 IBM computer users)



Source: Pansophic Systems

The survey shows that 70 per cent of companies with an annual turnover of up to £100m intend to purchase CASE tools in the next three years. Currently, only 17 per cent of this group use CASE. Larger companies with turnover between £100m and £500m will also increase their use of CASE tools.

About 36 per cent of these companies use CASE and this will increase to 60 per cent over the same period. Very large companies, with turnover above £500m, are the main users of CASE (about 60 per cent) and this sector will also increase (to 78 per cent).

Bob Davies, head of Pansophic's UK CASE division, says that the changes in Europe are not necessarily the main reason for the growth in CASE usage; but they are certainly a factor. "It is related to a number of things - cost control, the growth in multiple hardware platforms and the desire to have a single standard development environment. Alongside this, users want their suppliers to be able to offer pan-European support."

Unlike the US, Europe has a number of indigenous hardware suppliers, each with a different approach. Bull in France, Siemens in Germany and ICL in the UK all have established national bases and software suppliers have had to be capable of supporting as many of these as possible.

In spite of moves made by many European hardware companies towards open systems standards such as Unix, proprietary systems are likely to remain for some time and customers will need to develop applications which fit both strands. Mr Davies says this was one of the main findings of the Pansophic survey.

Other software suppliers agree. "The flexibility to target multiple platforms has become very important," says Vic Morris, managing director of UK CASE supplier Software Generation. "Customers are looking for single development environments which can build applications for many different machine types. If you look at the European customer base it is about 60 per cent IBM and 40 per cent other vendors. But more and more computer users are buying from several hardware suppliers."

Rob Baldock, head of Andersen Consulting, the software arm of Arthur Andersen, sees the same trend: "Multinational companies who are positioning to take advantage of the new opportunities in Europe want the same software across all their national subsidiaries. They see 1992 as an incentive to introduce standard systems to increase productivity at the same time as making cross-border information flow easier."

He believes that traditional differences between countries in Europe and the way they build business systems are not as great as they were: "Large multinationals are no longer accepting the argument that things are different. They want to be able to build the same core application and adjust it for local conditions. It is a bit like an exercise in town-planning. You lay down a basic architecture and then fill in the gaps. CASE allows you to do this."

Andersen Consulting has adopted this approach in its own development. The research and development for Foundation, its CASE product, is based in Nice, although the product is marketed worldwide. CGI, another French-based CASE supplier, has practical examples of this approach. Yves Revanit d'Allonnes, CGI's director of CASE, cites Avis, the car rental company and Moët, the champagne manufacturer. "Avis has taken our financial resources system and customised it with our Pacbase CASE tools for its European subsidiaries. And Moët is in the process of redeveloping all of its systems for Europe-wide use."

CGI's Pacbase tools set was one of the earliest CASE tools to consider multiple hardware platforms. It can now cater for up to 40 different hardware types and many different combinations. "There are many customers who generate applications for, say, IBM and Bull in France or DEC and ICL in the UK," M. d'Allonnes says, suggesting that European harmonisation may spread to CASE technology.

CGI, along with British Telecom in the UK, has been appointed to help devise a common approach to CASE methodology under the auspices of the European Economic Commission. The project, called Euromethod, aims at synthesising a common set of tools and a vocabulary for comparing CASE across the European countries.

CASE methodology lays down basic principles of design and procedure for the development of software applications within the scope of the software life cycle. Each country has its own approach, backed by individual national governments. The UK has the SSADM method and France has a method called Merise. M. d'Allonnes says that Euromethod will bring these together so that computer users can make comparisons.

The project is still in the early stages, however, and is unlikely to have any short-term influence on companies' plans to make use of CASE to further their European ambitions. What is clear is advanced CASE tools have an important role in building systems which will meet the challenge of greater international competition in the 1990s. Those companies which do not take note of this could find themselves left behind.

Phil Manchester

STANDARDISATION

Mainstay for profit

BEHIND the public image of men in white lab coats arguing over the latest process control chip or a new-fangled telephone wiring system is a process which the European IT industry sees as the mainstay of its future profitability.

The industry has pioneered the development of "open systems" computing in an attempt to defend its market against US and Japanese manufacturers.

The concept of open systems - in which computer hardware is built to a set of common standards so that equipment from one manufacturer can work with that from another and software can be shifted between machines - has become almost synonymous with Unix, the computer operating system devised by AT&T, the American telephone company.

And as a result, its name has been blackened over recent years by the emergence of two separate groups intent on pursuing different developments of Unix and so negating the idea of one common standard. "The growth of the market as a whole has been slowed down by the so-called Unix wars by at least a year," says Mr John Lomas, a member of the corporate strategy group of Olivetti Systems and Networks, of Ivrea, Italy.

However, Mr Lomas, who is also chairman of the steering committee of Unix International, one of the two Unix groups, believes rumours of their difference have been greatly exaggerated.

With the EC recommending that all national governments should adopt open systems, Unix found an early place in the halls of government power. But over the past year many companies have also begun to include a specification for open systems in their procurement documents.

The advantages are obvious: a company could buy a system from, say, Siemens or ICL, and if Bull or Olivetti were then to produce a more powerful piece of hardware, the company could buy the updated system and transfer the software directly from the old computer to the new one.

But although it is the European manufacturers that pushed for the introduction of open systems, implementation of the concept has brought as many headaches as solutions. Because open systems reduce computing equipment to a series of commodity products, price becomes a dominant factor in purchasing decisions, and computer makers have to fight hard to develop the extra bell or whistle that will mean its products are favoured rather than those of its competitors.

"Users are better off but manufacturers are in a terrible mess," confirms Mr Lomas. "Here in Italy we can't sit down and say let's do this. We have to talk to X/Open and see what the rest of the industry is doing and then build on that. And we have to make sure our 'value added' is not becoming a commodity."

Although "open systems" is a term coined by the computer industry, it is one that applies across many other fields of electronic technology such as consumer products - users and manufacturers alike remember the anguish caused when they backed the wrong VCR standard - and telecommunications.

The need for common European telecommunications standards has led to the setting up of the European Telecommunications Standards Institute (Etsi), in Nice.

It is now considering standards for cordless telephones, mobile radio and personal communications networks. But the most widely publicised feat of collaboration has been in the development of the standard for a pan-European cellular radio service, which will come into operation in July this year, enabling car drivers to use the same carphone as they drive across frontiers.

Della Bradshaw

OLIVETTI

Double-barrelled attack

BERLIN was chosen by Olivetti as the location for last month's launch of its new personal computer range in a move designed to underline the company's character as a "European" producer.

Olivetti is admittedly one of the very few European computer makers now making laptops in Europe, a fact it took pains to underline in its glossy launch.

But being a European computer producer is no bed of roses at present, given the pressures facing the industry, which has had to fend off particularly acute US and Japanese competition on its home turf over the past year.

Olivetti has been fighting from the difficult terrain of an overvalued currency - notably against the dollar and the yen in the first half of 1990 - and crises in some of its key markets.

With 80 per cent of manufacturing based in Italy, which had inflation of 6.5 per cent last year, the company has also been squeezed on the cost side.

The group performed well in Europe, where its 8.7 per cent sales growth, excluding Italy, was roughly in line with forecasts for the continent as a whole last year. But non-European markets were a "real disappointment", according to Mr Vittorio Cassoni, its managing director.

The crisis in the US banking industry, an important Olivetti customer, and economic decline in Canada and Australia will be reflected in Olivetti's 1990 earnings, which will be released in late April. "We are in profit, but there has been a compression of margins compared with the previous year", Mr Cassoni says.

Nevertheless, the company is proud to have remained in the black after net earnings of L202.8bn in 1989. "We have done pretty well compared with most of our competitors," he says.

Being a European computer producer is no bed of roses at present

Mr Cassoni recognises that the year ahead will be no easier, with the Gulf war having added a further element of uncertainty to an already cloudy picture.

But although demand for personal computers in Europe is expected to fall below the 13 per cent recorded in 1990, he still expects some growth, albeit no longer in double figures.

Olivetti has decided on a harsh reduction in costs, notably through job losses, and a further emphasis on technologies for which demand is rising, as its twofold response to the harsher circumstances ahead.

The 7,000 job losses due this year, which will reduce total employment to some 47,000, represent "a big programme", ings as redundancy costs are absorbed, he says. But despite the sensitivity of the negotiations with the unions and government, Mr Cassoni is pleased that matters were settled in just two months, and he stresses that no more big cuts are due.

As for products, the emphasis at Olivetti's Systems and Networks division is now firmly on non-proprietary "open systems" technology, which allows common software to be used on a variety of manufacturers' machines.

Meanwhile, Olivetti Office, the subsidiary concentrating on mass-market personal computers and office equipment, is also pushing ahead with devices such as PCs, laptops and non-impact printers, "for which demand is rising", says Mr Cassoni.

Together, products based on technologies for which demand is growing are expected to account for 65 per cent of total group revenues after 1992, compared with 43 per cent in 1989 and 48 per cent last year, the company forecasts. "It's a race we have to win, as that's what leads our growth", explains Mr Cassoni.

Europe will be the focus of that contest. Olivetti is stepping up efforts to protect its position, as Europe is where Mr Cassoni expects US and Japanese competition to be toughest this year. "We must continue to gain market share", he says.

هكذا من الأصل

The onward march of television: from the 1936 set shown at London's Olympia (left) to a high-definition TV (right)

HIGH-DEFINITION TELEVISION

The attractions of clarity

AT a lavish reception in the La Défense district of Paris, last month, Thomson of France launched a $7,000 television set, aimed at keeping the company and Europe at the forefront of the consumer electronics business.

The set provides clearer pictures than those hitherto available, although it still falls short of the standards expected from high-definition television (HDTV). Fully-fledged HDTV, which Thomson Consumer Electronics believes is crucial to its long-term future, is expected to be available by the middle of the decade.

The company's commitment to HDTV is shared by the French and Dutch governments, as well as by Thomson's competitor, Philips of the Netherlands. The two companies and their governments are devoting about $4bn to HDTV research.

Despite their success in developing a European high definition standard, few outside the two companies are optimistic about their chances of success.

The threat to Europe's high-definition hopes takes three forms. The first is the absence of broadcasters willing to transmit programmes in the Mac system which has been adopted as the European standard. Mac was originally developed by researchers at Britain's Independent Broadcasting Authority. A European Commission directive requires all satellite broadcasters to use the D2-Mac system, the half-way stage to HD-Mac, the proposed high-definition norm.

In spite of the directive, which was adopted in 1987 and which is due for renewal next year, most European satellite broadcasters use existing technology. Mr Rupert Murdoch's Sky Television broadcasts from the Astra satellite in PAL, the system currently in use in the UK, Germany and much of the rest of Europe.

The only French stations broadcasting in D2-Mac are the Canal Plus pay television service, a pop music channel and a culture channel.

The most committed Mac broadcaster was British Satellite Broadcasting which used D-Mac, the UK version of D2-Mac. Last year, Mr Ronald Blunden, a senior vice president of Thomson Consumer Electronics, said: "We knock on wood every morning, praying that BSB will be successful. If they go down, the Mac standard will go down."

BSB did go down late last year, merging with Sky. The merged company will broadcast in PAL and some observers think that the Mac standard has probably gone down with it.

The set provides clearer pictures than those hitherto available

In spite of Mr Blunden's dramatic claim last year, however, Thomson insists that D2-Mac and HD-Mac still have a future.

The advantage of the system, Thomson says, is that it is compatible with Europe's existing standards. Thomson's new set has 1,250 horizontal lines, exactly double the number on existing European screens. This means that owners of the new Thomson sets can continue to receive broadcasts in PAL or Secam, France's conventional system, as well as in D2-Mac. Fully-fledged European HDTV will also have 1,250 lines.

By contrast, the only other HDTV system already in use, Japan's Muse, is incompatible with the older television standards throughout the world. That HD-Mac does not require Europe's television owners to throw their existing sets away is one of the most important arguments in its favour, its defenders say.

Muse might be incompatible with current standards in either Europe, the US or Japan, but the Japanese still represent the second major threat to Europe's hopes. Japan's great advantage is that it has been working on HDTV for 15 years longer than the Europeans, who only began developing Mac in 1986.

Japan is also assisted by the close collaboration between electronics companies, the government and NHK, the country's broadcasting organisation. NHK has been transmitting an hour of HDTV every day since June 1989. The broadcasts, which include opera, sport, travel and fashion, can be seen on sets in public places and department stores around Japan.

At the end of this year or the beginning of 1992 NHK hopes to begin broadcasting eight to 10 hours of high-definition programmes every day. Japanese consumer electronics companies have already begun to sell fully-fledged HDTV sets. As the sets cost Y2.3m, with a HDTV decoder going for a further Y1.8m, the companies do not expect many takers.

All these developments, however, are providing Japanese consumer electronics companies with valuable experience. Even if Europe's standard does eventually take off, the Japanese believe they will have acquired sufficient expertise to manufacture HD-Mac sets.

The third threat to Mac's prospects comes not from Japan, but from the US, which has barely any presence in the consumer electronics industry. The Federal Communications Commission will select an HDTV system for the US from five contenders. A consortium which includes Thomson and Philips is one of the applicants. The winning system, however, is likely to be more sophisticated than either Muse or HD-Mac.

A recent French report, produced by a think tank attached to the foreign ministry, said that the US developments could make Mac redundant. The French government, however, reaffirmed its support for D2-Mac, saying that a more highly developed system would take many years to develop.

The European Commission's satellite broadcasting directive comes up for renewal next year. Some voices within the Commission are calling for the directive to be strengthened to ensure that all satellite broadcasters use D2-Mac including those transmitting from Astra. Others, however, seem prepared to accept that Europe's brave new standard has failed to rally enough troops.

Michael Skapinker

CONSUMER ELECTRONICS

Power of entertainment

SCEPTICISM over tha prospects of a European high definition television system should not obscure Europe's success in consumer electronics.

In Thomson of France and Philips of the Netherlands, Europe boasts consumer electronics manufacturers in the world'e top four. Smaller players like Nokia of Finland and Amstrad of the UK have also managed to establish themselves in a fiercely competitive market.

Together with Matsushita of Japan, Thomson and Philips are the world's largest makers of colour television sets. Mr John Bird of BIS Mackintosh estimates that Thomson and Philips each makes more than 6.5m television sets a year. He adds that 33 per ceot of consumer electronics expenditure worldwide still goes on television sets.

Philips, Europe's largest electronics company, has suffered severe financial setbacks over the past year. Nevertheless, its consumer electronics division has remained a bright spot, as is to he expected from the company which hrought the world such new consumer gadgets as the compact disc, tha audio cassette and the video cassette recorder.

Althongh Thomson Consumer Electronics declared a net loss of FFr680m for 1990, it has followed a bold strategy of expansion in recent years, purchasing the BCA consumar electronics division of General Electric in the US in 1987. In the same year, it bought Ferguson, the leading vendor of television sets in the UK, from Thorn EMI, the British music, light fittings, rentals and technology company.

Mr Bird believes thet whatever the progress of high definitiou televislou, companles such as Philips and Thomson will continne to play an important role in television mannfacture. "It's all abont merchandising and distribution," he says. "The companies concerned have won terrific brand loyalty. It is true that whoever establishes the high definition standard will tend to improve their competitive position. But we always say that the days are gone when you can use your standard as a competitive weapon *per se*. We live in an open and competitive world. Whatever new systems are presented, I am absolutely certain that companies like Philips and Thomson will have competitive products."

Althongh televlsion has maintained its importance in the world of consumer electronics, the 1980s can be said to have been a decade dominated by the video cassette recorder. Japanese companies have established a strong position in VCR but both Thomson and Philips are thought to produce more than 1m recorders a year. Thomson manufactures VCRs in a joint venture with JVC of Japan.

The video cassette recorder market in Europe is still relatively immature, suggesting that companies with a strong presence can still boost their VCR sales. According to BIS Mackintosh, more than half of those huying VCRs are first-time huyers in almost all European countries. Only in the UK and Norway do first-time purchasers account for fewer than 50 per cent of total buyers. In France, Italy, Spain, Austria, Belgium, Portugal and the Repuhlic of Ireland, more than three quarters of those buying VCRs have never owned one.

Philips has suffered severe financial setbacks over the past year

In Europe as a whole, 49 per cent of households own a VCR. In the US, the proportion is 81 per cent. In Japan, where some bouseholds boast more than one VCR, the figure is 116 per cent.

Although many Europeans have yet to purchase their first VCR, Mr Bird believes that the hattleground of the 1990s will be in camcorders, compact discs and other small products. Here, European companies have the disadvantage of a less developed domestic market than their Japanese counterparts. BIS Mackintosb believes tbat Japanese consumers generally huy two or three times as many electronic gadgets as their western cou terparts.

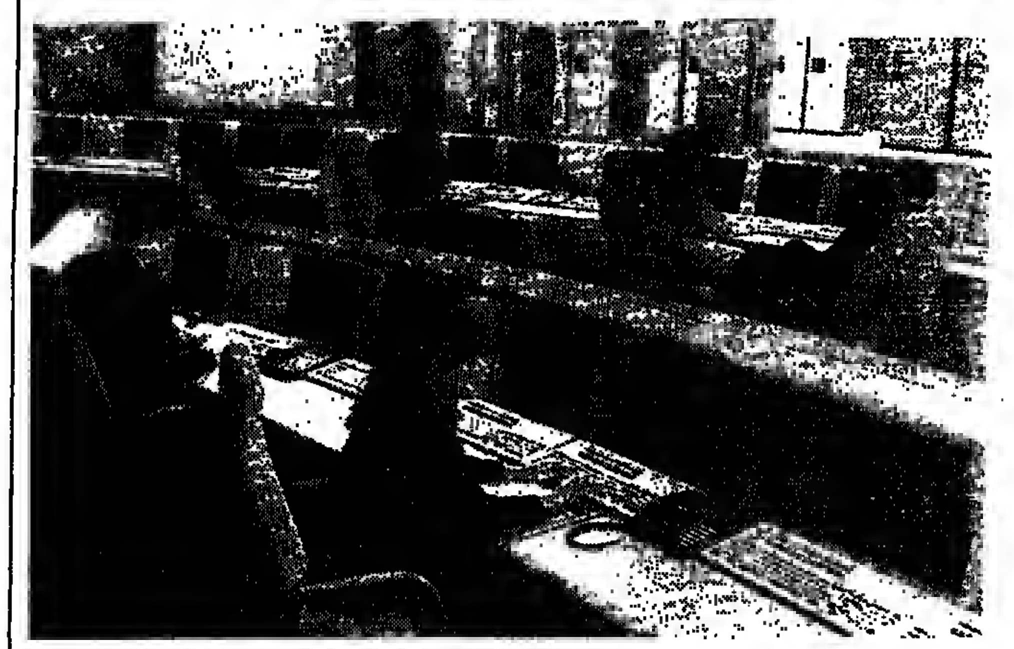
Mr Hiroyuki Mizuno, execu tive vice president of Matsusi ita, says that Japanese co eumer electronics companie are greatly assisted hy th high price of real estate i Japan. Whereas young Eor pean couples devote a larg proportiou of their income t their homes, Japanese consum ers tend to spend their mone on consumer durables and lu ury items. Mr Bird says: "It not that the Europear haven't got the technic skills. It's just thet the Jap nese have the volume whic enables them to manufactu on a global scale."

Philips says, however, th it intends to slow the Japane advance in another importa area of consumer electronic digital audio tape (DAT). So of Japan believes that DA tapes will have a similar re tionship to compact discs that of andio cassettes wi vinyl records, enahling ord nary consumers to make the own high quality recording Representatives of America songwriters aud music pu lishers hava already strong objected to the sales of bla DAT cassettes, saying th Sony is "inangurating a ne era in unaothorised home ta ing of copyrighted mnsic compositions". The DA machines allow consumers tape from a CD to a tape b not from one tape to anothe

Philips believes it can atta DAT on a different basis: th it will make consumers' au cassette collections redunda Instead, Philips says it inteu to launch a new system, t Dtgital Compact Casset (DCC). These tape players w be ahle to handle both digi tapes and conventional sound quality equal to that compact discs, Philips says.

The company says that s eral major music organi tions are participating in t development of DCC. Th include PolyGram, a subs lary of Philips, EMI and B telsmann. Tandy of the US also participating in the D project and Phillps says hopes to eutice some Japan hardware manufacturers to

Michael Skapink



Overlooking the industry: EDS' European information management centre

ALCATEL

Eastward and southwar

IF TELECOMMUNICATIONS equipment is one of the few strong and profitable areas in Europe'e IT industry, Alcatel, the region's biggest producer, is no exception.

Growth has been impressive since the group's formation in 1986, from the merger of the telecommunications business of Compagnie Générale d'Electricité (recently renamed Alcatel Alsthom) with the telecommunications activities of ITT, the US conglomerate. Productivity improvemauts, tha savings achieved hy pooling the partners' development efforts, plus a rise in market share, lay behind a 33 per cent increase in net profits to Ecu478m in 1989.

As a pioneer of the internationalisation of Europe's telecommunications industry, the merger appears so far to have worked well. Yet the French company is at the same time grappling with the problems of international competition from its arch-rival, American Telephone & Telegraph, and Siemens and Fujitsu, its nearest competitors in the transmission equipment market, where Alcatel was until recently relatively under-represented.

Not content with the ITT merger, Alcatal has been expsnding into southern Europe over the past year through a wide-ranging alliance with Fiat, the Italian automotive gronp, and into eastern Europe and the Soviet Union through a series of joint ventures, attracted by the poteutially lucrative task of renewing the region's creaking telephoue networks.

However, it was the challenge posed by a more open and competitive European market that lay behind the alliance between Alcatel Alsthom – which owns 70 per cent of Alcatel, with the rest in the hands of ITT – and Fiat.

As well as suiting both companies' industrial needs, the Fiat marriage is an indicator of how European governments are feeling increasingly relaxed about allowing foreign companies to buy into a sector that many used to see as a strategic preserve.

One result of the deal was to give Alcatel 75 per cent control of a naw company created through the merger of Fiat's Telettra telecommunications equipment subsidiary and its own Italian offshoot, thereby donbling Alcatel's sales in southern European telecommnnications equipment.

Growth has been impressive since the formation of the group in 1986

Since the overall deal is one of the biggest European cross-border alliances to date, it is little surprise that the Europaan Commission has launched an anti-trust inquiry into aspects of it. But assuming Brussels does not impose big changes, the deal significantly increases the group's transmission equipment sales, an area which had until recently been overshadowed by Alcatel's strength in public switching, where it has 15 per cent of the world market.

The big step in Alcatel's eastern European developm came last June with an ag ment to make 1.5m system digital telephoue lines 100,000 PABX priv exchanges a year in the So Union. These, plus joint v ture agreements in Yugosla Hungary, eastern Germ and Poland are estimated have lifted eastern Europ turnover to FFr1.4bn last y out of estimated 1990 Alc sales of FFr95bn.

In Western Europe, the opportunity is the com arrtval of digital mo phones, which offers Alc the chance to rectify its fail so far to compete significa in conventional – or analo radiotelephones. The new eration, based on the Eur wide Groupe Spéciale Mo standard due to come i effect this year, allows chea and higher quality commun tions, plus an increase in t fic over the present system.

Alcatel is developing G infrastructure equipmeot Nokia of Finland and AE Germany and has b awarded contracts, either its own account or in the sortium, in seven countr Maanwhils, it is invest heavily in digital handsets aims to take a significant s of a European market e mated to be worth up FFr22.5bn by the end of decade, more than twice as as the infrastructure mar estimates the Paris office Enskilda Research. Howe with most of its competi sharing the same dream, m gins will be thin.

William Dawk

Louise Kehoe on why US suppliers like Europe

Continent of opportunity

:TH the US mired in recession, ...rope has become the "land of ...portunity" for many of America's ...gest information technology com-...nies.

...uoyant European sales are cush-...ing the effects of a slumping ...mestic market and capturing ...reased attention from executives ...US computer manufacturers.

...he weakness of the dollar ...ainst European currencies is ...osting European profits for many ...companies, while also encourag-...them to price their products ...re aggressively in Europe.

...pple Computer spelled out the ...ect of currency fluctuations in its ...t quarter report, for the period ...ding December 30. Apple's reve-...es rose 12 per cent for the quar-..., to $1.7bn, but with 45 per cent ...sales coming from international ...rkets (primarily Europe), Apple ...nowledged that the slide in the ...lar's value was a major contribu-...

...f the results for the first quarter ...re computed at currency ...hange rates that prevailed a year ...lier, Apple estimated that world-...de revenues would have increased only six per cent, or half of the recorded gain.

The same hypothetical analysis would result in a gross margin for the first fiscal quarter of approximately 45 per cent of sales instead of over 51 per cent, and earnings per share of approximately 11 per cent below the level a year earlier.

This would have reversed Apple's 33 per cent gain in earnings per share for the first quarter of fiscal 1991.

The weak dollar prompted Apple to level out pricing of its latest Macintosh personal computers. Traditionally, Apple has placed a high premium on products sold in Europe, now prices are much closer to those in the US.

The European computer market is also less mature than that of the US, providing more scope for sales growth.

In the personal computer sector, the European market is at least one year behind that of the US and displaying the kind of double digit growth rates that are no more than a fond memory in the US.

For Hewlett-Packard, which has achieved only a marginal share of the US personal computer market, Europe has proved to be a far more fruitful market. This is in part because the US personal computer dealer channel, through which most personal computers are sold, is already dominated by market leaders, IBM, Compaq and Apple Computer.

It is extremely difficult for any competitor to unseat the leaders on dealers' shelves.

In many parts of Europe, however, the channels for distribution for personal computers are less well defined. Hewlett-Packard has won a five per cent market share in Europe, compared to just one per cent in the US.

Last year, HP announced that it was transferring its personal computer division headquarters to Grenoble, France.

Compaq Computer has achieved remarkable success in the European personal computer market, claiming second place to International Business Machines in European personal computer sales last year by overtaking Apple Computer and Olivetti.

In 1990, Compaq's European sales outstripped those in the US for the first time. Sales outside North America contributed 54 per cent of the company's revenue in 1990, with Europe accounting for almost all overseas sales.

"Compaq's early investment in its European business, starting in 1984 with our entry into three countries in Western Europe, paid high returns for the company this year as personal computer sales growth rates in Europe were much higher than those in the US," said Rod Canioo, Compaq president and chief executive. "During 1990, Compaq's international revenne of approximately $2hn was a 49 per cent increase over the previnus year. North American revenue, reflecting a continued slowing of economic growth in the US, grew five per cent.

Compaq has 13 sales and marketing subsidiaries in Western Europe anpported hy mora than 1,500 authorised dealers. Last year,the company aubstantially expanded its manufacturing facility in Scotland, which now produces 70 per cent of Compaq products ahipped to international markets.

The company also annnunced plans for a large distribution centre in the Netherlands to be completed in 1993 that is intended to improve the timeliness and efficiency for delivery of prodncts to dealers in Europe.

Further expanding its European presence, Compaq established new subsidiaries in Austria and Finland last year, while also signing up its first dealers in Hungary, Yugoslavia and what used to be East Germany.

International Business Machines, the US computer giant, has long been a dominant force in Europe as well as many other parts of tha world. IBM's European operations accounted for 35 per cent of the group's $62.71bn global revenue and nearly 71 per cent of its $3.76bn net income in 1989, the most recent figures available from IBM.

Although IBM has yet to break down its 1990 earnings according to geographical regions, European sales undonbtedly grew sharply. IBM'a revenue from non-US operations in 1990, was $41.9bn, almost two thirds of the company's total revenues fnr the year of $69.0bn and up 13.3 per cent from $37.0bn in 1989. Non-US net earnings were $4.6bn in 1990 compared with $4.1hn in 1989. Worldwide earnings for the year were $6bn.

Digital Equipment has similarly seen its European aales expand while suffering from slowing sales growth in the US.

In December Digital announced its largest ever investment in another company with the acquisition of a 65 per cent interest in a new German-based company to be formed from the former Kienzle computer systems division of Mannesmann AG.

"This investment underscores the importance of Germany as a growth market for Digital and improves our ability to reach the emerging markets of Central and Eastern Europe," said Pier Carin Falotti, president of Digital Europe. While US computer companiea place increased emphasis upon the European market as a source of growth, they also report a sharp decline in UK sales over the past few months. There are rising fears within the US computer industry that the economic and political uncertainties created hy the Gulf war will slow sales throughout Europe before the US economy recovers.

Ultimately, however, US computer manufacturers see themselves locked into a world market battle with Japanese competitors. Today, the front line is in Europe. Tomorrow it may be in the US and Japan.

SIEMENS

Heavyweight expansionist

...MENS, the German ...ctronics giant, was already ...of the world's top 10 infor-...tion technology suppliers ...number two in Europe to ...4 when it merged last year ...h Nixdorf to spin off Sie-...ns-Nixdorf Information ...tems (SNIS).

...iemens' computer division, ...rketing a full range of ...tems from personal comput-...to supercomputers, was ...ding in the black at that ...e. That has changed with ...Nixdorf acquisition.

...he smaller company, ...pite a meteorically success-...early history based on ...nd technology and a sharp ...lerstanding of its custom-...requirements, had fallen ...the trap of increasing staff ...nbers and capacity to cope ...a sales boom that failed to ...erialise. It lost DM800m in ...first nine months of 1990 ...re the Siemens takeover.

...hen Siemens absorbed the ...pled company (an event in ...ch many detected political ...er than business logic), it ...had to absorb DM300m of ...ructuring costs, which held ...its last year to DM 1.67bn, a mere 5.9 per cent increase on the year before.

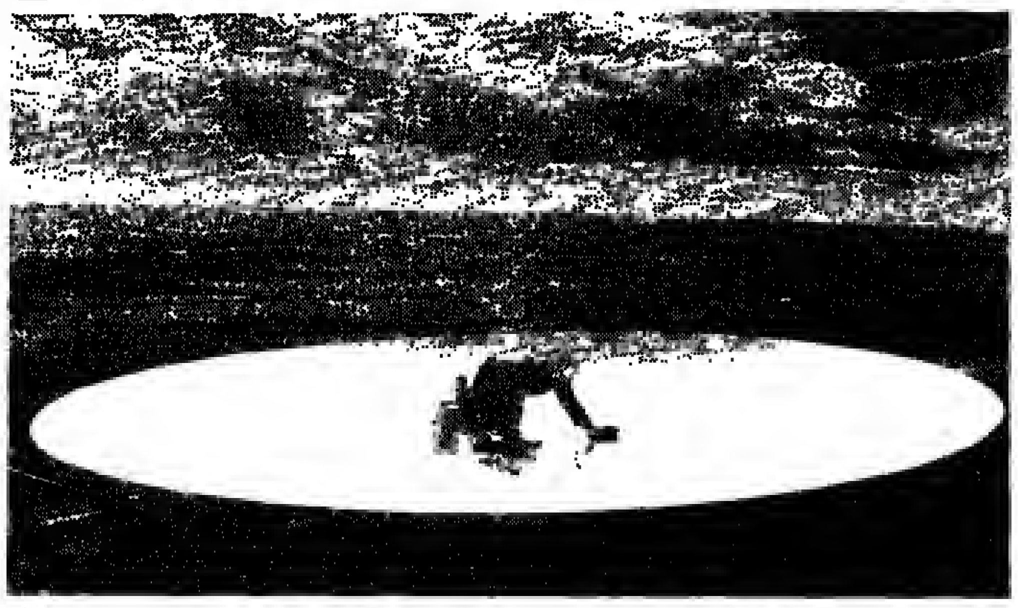
Sales were up 4 per cent from the year before at DM63.3bn. Now Siemens hopes that SNIS, under chairman and chief executive Hans-Dieter Wiedig, will break even if not move into a positive operating profit by the end of 1992. The Nixdorf takeover is only one of the latest of a series of mergers and alliances as Siemens, under the personable and determined Karlheinz Kaske, moves from its previous role as German national electrical and electronics capital goods champion – staid, ponderous and with the largest proportion of its sales on German territory – to global competitor.

These alliances include a 40:60 alliance with GEC of the UK on the GPT telecommunications company, collaboration with IBM on the development of the 64m bit memory chip, the next stage in semiconductor miniaturisation, a 49:51 joint venture with Mannesmann on printers and the merging of its Hell printing machinery business with Linotype.

In operating through a web of alliances, mergers and partnerships, Siemens is following closely the pattern for modern multinational companies which see powerful synergies in these arrangements. There is, for example, the problem of accelerating technological progress which raises research and development costs while shortening product cycles. Furthermore, no single company, however large, can master all the technologies needed to compete globally. The Nixdorf acquisition moves Siemens firmly into the Unix world, although it already had its own version of Unix called Sinix.

Siemens' computer catalogue includes a family of mainframe computers running Siemens' own operating system; the most powerful machines in this family are built to Siemens' specifications by Fujitsu of Japan. The company also has a share in a joint venture with BASF, the German chemicals company, called Comparex. This company sells mainframes built by Hitachi in competition with Hitachi's own western marketing arm Hitachi Data Systems. Siemens and Nixdorf were both founder members of the Open Software Foundation, which has developed a Unix-based computer operating system as a contender for the role of industry standard.

Alan Cane



Global horizons: BT installs a satellite dish in Scotland for the North Sea oil rigs

ERICSSON

Research is the key

ERICSSON, the Swedish telecommunicatinns equipment group, has transformed itself into nne nf Europe'a most successful IT companies during the last few years by making heavy R&D investments in its core product areas of telecommunications switching equipment and mobile telephones.

Ericsson'a R&D spending, estimated at SKr6hn, is approaching 15 per cent of its 1990 sales of SKr45.7bn and exceeding its pre-tax profit of SKr4.85bn.

Ericsson believes that such a large R&D commitment is necessary to safeguard its market positinn against tougher competitinn during a perind nf slower sales and profit growth over the next year or two.

In justifying this strategy, Ericsson can point to such previous successes as the development in the early 1970s of the AXE digital exchange, which became the company's main 1980s profit earner.

It has also learned to avoid over-extending its activity by diversifying into other IT sectors. An attempt to integrate telecommunications with computer operations in mid-1980s proved to be a costly failure.

Since selling its computer division to the Finnish electronics group Nokia in 1987, Ericsson'a profits have staged a dramatic recovery with earnings doubling between 1987 and 1989, while salea increased by 50 per cent during the same period. For 1990, profits jumped 30 per cent with sales up 16 per cent.

In the late 1980s, mobile telephone systems emerged as Ericsson's fastest growing product area, and it claims to be the world's largest supplier of mobile telephone equipment, excluding handsets.

Twn main projects in the mobile telephone sector are its participation with Siemens in the construction of a new system in Germany, the largest gangraphical network in Europe, and the installation of a trans-continental network in North America for McCaw Cellular Communications. The McCaw nrder made Ericsson the biggest supplier of cellnlar telephone equipment in the US.

But its rapid success in the sector has resulted in growing pressure nn its manufacturing facilities to keep up with surging orders, while a shortage of engineers conld threaten delays in its development of base stations for the new pan-European GSM digital cellular phone system as well as other important R&D projects.

But public telecommunications equipment is likely to remain the company's mainstay in the 1990s. Ericsson is modernising its AXE exchange to handle the simultaneous transmission of speech, data and pictures.

Ericsson's R&D efforts have coincided with the establishment of firm marketing positions abroad through corporate acquisitions. This reflects Ericsson's heavy dependence nn foraign orders, which account for 85 per cent of sales, with Europe providing two-thirds of business.

In January, Ericsson acquired half of Orbital Mobile Communications in the UK from Racal Telecom, which operates the wnrld's biggest cellnlar network in terms of subscribers.

This fnllows its majority takeover of General Electric's mobile communications business in the US in 1989 and last year's purchase of one-third of the Austrian concern Schrack Elektronik, which Ericsson sees as a springboard into Eastern European markets.

John Burton

CONTRACTED BUSINESS SERVICES

More than 50 companies in Europe, each with annual revenues of £1bn, now offer in-house business services to public and private organisations seeking to increase their efficiency and to improve performance. **Michael Cassell** looks at the sector

Spotlight on cutting costs

THE RAPID, worldwide growth of the business snpport services sector reflects a revolntion in boardroom thinking over the most cost-effective and efficient way to run e company in today's harsh, highly-competitive corporate environment.

Faced with mounting pressures to cut costs, increase efficiency, flexibility and the quality of the products they make, public and privete sector organisations are engaged in an open-ended effort to improve their performance.

On hand to help them is a disparate group of industries which may appear to have little in common but which share a single objective – to offer relief from many of the essential but peripheral daily responsibilities.

The enlistment of outside help to provide a range of in-house business services goes back more than 30 years. But what began as a limited contract arrangement for a typist or a filing clerk has become a multi-disciplined system of support services able to handle almost every aspect of business operations.

Today, the corporate client can contract external resources to handle waste disposal, laundry, security, catering, plant hire, transport, building maintenance, telecommunications and information systems and travel and skills training.

The revolution has been a principal driving force behind the expansion of a service industries sector which, according to the European Commission, now accounts for half of all EC output, 40 per cent of employment and one-third of exports.

According to the European Service Industries Forum (ESIF), which represents a range of service-based industries, Europe has more than 50 companies in the service sector with annual revenues exceeding £1bn. The sector, it claims, is the only one within the European economy where employment has grown steadily for the past 15 years.

ESIF claims that the practice of contracting out subsidiary business functions to service companies is growing rapidly as companies calculate the advantages. Mr Gunter Pauli, ESIF's chief executive, says research suggests that, by contracting out, a company can improve its operating efficiency by up to 20 per cent.

The process is further advanced in the United States, where more than half of companies coutract out at least a portion of their support services. Even so, the average US manufacturer is estimated only to have delegated the equivalent of 8 per cent of gross economic ontpnt, leaving ample room for further growth.

The total business support services market in Britain was calculated hy the Oxford Forecasting Unit to be worth £42.5bn in 1990, or 5 per cent of gross domestic product. The unit suggests the figure could grow by more than 11 per cent per annum to £80bn by 2000.

Almost daily, announcements from corporate giants such as IBM, ICL, BP, British Telecom and Marks & Spencer demonstrate that companies are increasingly deciding to stick to what they know best – their core business. By employing outside specialists to take care of everything else they have decided, to quote a saying now well used in the corporate sector, "to stick to their knitting".

The public sector is offering a potentially rich seam for the business support sector, given the gradual implementation of management systems designed to inject commercial disciplines into areas not previously subject to such intense pressures to minimise costs. The market's potential has been estimated at £20bn a year.

One calculation suggests Britain's National Health Service already allocates £4bn a year to contracting ont services to maximise resources for medical services.

In the US, the federal government requires that government departments should, wherever possible, obtain goods and services from the private sector, an attitude which also prevails at local levels, where more than half of local authorities contract out services such as refuse collection and maintenance.

As in the US, growth in business support aervices in Britain is projected to rise significantly faster than GNP in the next decade. The trend will be helped hy the increasing tendency of public authorities to privatise services. The same trend is also under way in Japan.

Mr Peter Drucker, an expert in corporate economics, says the growing trend for companies to use increasing numbers of people on the payroll of outside contractors will continne to accelerate sharply: "In another 10 or 15 years it may well be the rule, especially in larger organisations, to farm out all activities that do not offer the people working in them opportnnities for advancement into senior management".

The formula may be the only way to attain productivity in clerical, maintenance and support work. When service and snpport costs accounted for less than 10 per cent of total costs on average, such activities were rarely examined in detail; now they can rise as high as 40 per cent, the spotlight has been firmly turned upon them. According to Mr Drucker: "In-house service and support activities are *de facto* monopolies. They have little incentive to improve their prodnctivity. In fact, they have a considerable disincentive to improve their productivity. There is, after all, no competition".

There is much competition among those companies which provide the support services. In the UK, the growth of the sector has been recognised by the creation of a new sub-sector to the FT Actuaries Index.

It includes an initial 14 companies offering industrial and business services and primarily concentrating on those providing practical, rather than professional services.

The companies listed include BET, the business support service conglomerate offering a network of inter-related operations such as Initial, Lorne Stewart and Biffa intended to provide a range of contract staff, skills and equipment. BET now claims to be among the world's 10 largest companies in the field.

Other leading British names in the new sub-sector include Automated Security Holdings, Hogg Robinson, Manpower, Reed Executive, Rentokil, Securicor and Sketchley. All 14 have a total market capitalisation of more than £4.5bn.

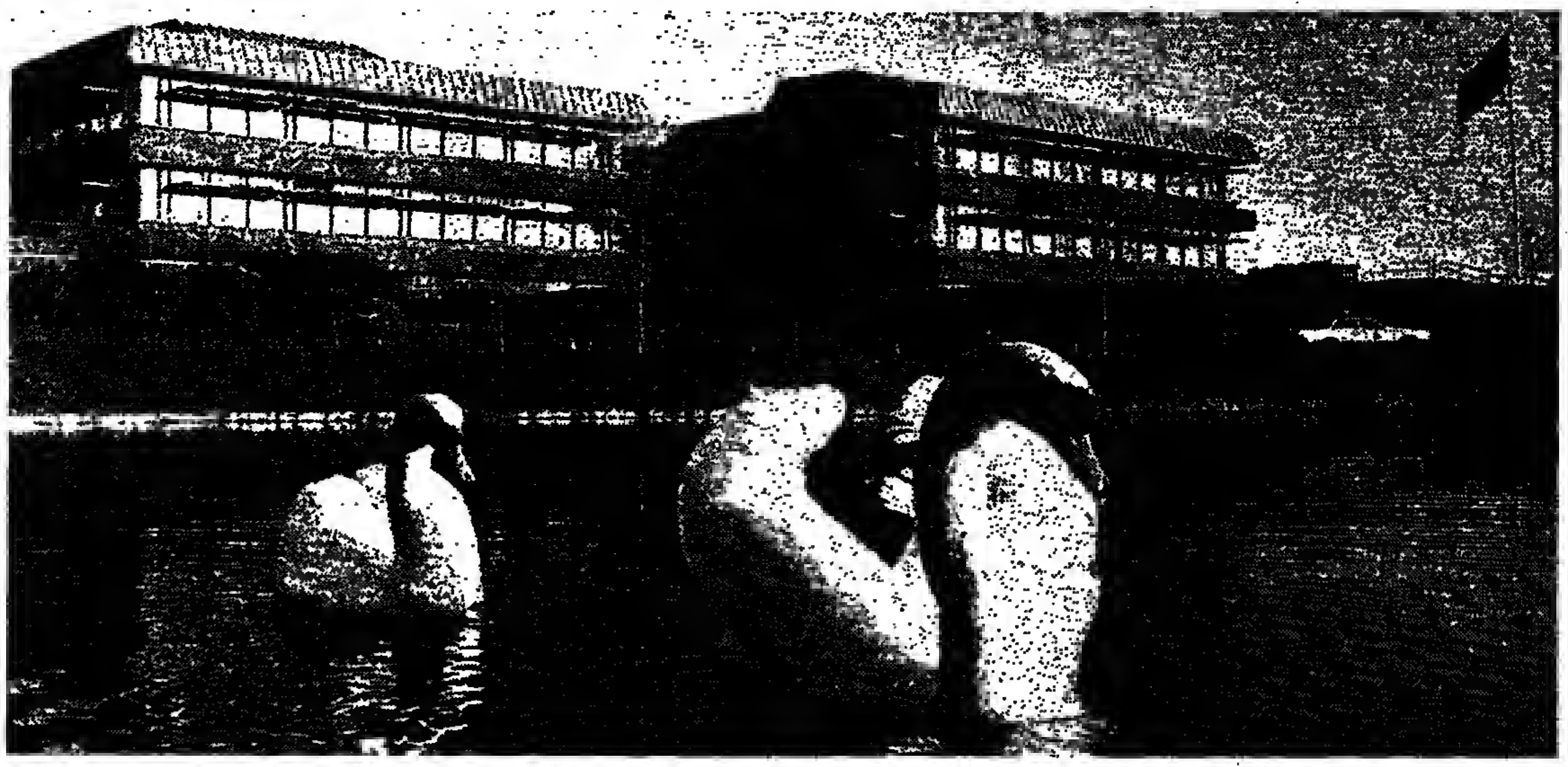
Companies such as Godfrey Davis and Hays might be included later, along with those operating in the waste management and computer software fields.

A survey conducted last year by ISS Europe, part of the international contract cleaning group, showed an increasing readiness hy companies to contract out some of their support operations. Nearly three quarters of companies approached said they already relied on outside organisations to provide cleaning services, while nearly half were prepared to contract out catering and security services.

As the nse of external support services spreads, so the concept is developing further. The contracting out, by one supplier, of packages of services is widely regarded as a logical progression and so-called "multi-service" suppliers are beginning to take shape.

Though the demand for contracted business services is unlikely to escape the full effects of recession, its practitioners appear confident that e period in which the need for cost-effective, efficient management assumes paramount priority can only serve to help their cause.

The search for cost-savings in every corporate corner will bring into focus the potential advantages of farming out a range of non-core business activities. If the companies offering business support services can offer identifiable cost advantages and guarantee quality of provision, then the present hard times could prove to he of enormous help in spreading their particular gospel.



LEFT: An idyllic setting for Hereford and Worcester County Council who are pioneers of contracted business services – they were the first local authority to privatise school meals and have employed security and catering firms at County Hall for 13 years. The Conservative-run county council in the heart of the Midlands serves 600,000 people and has a long tradition of forays into the private sector. Figures show £1m saved by contracting out meals for middle and secondary schools was used to employ a further 175 teachers.

IN THIS SURVEY

CONTRACTED SERVICES 2

Michael Cassell examines the reasons for contracting out

Concentrating on core business

THE TYPICAL director can expect to spend around three hours a day resolving problems arising from a company's subsidiary operations.

Increasingly, companies are less inclined to indulge in such wasteful diversions. However, many companies still appear to be suprisingly vague about the real costs involved in providing such support services. But average estimates suggest that they range from 20 per cent of overheads to 30 per cent or more if, for example, transport facilities are involved.

Business support specialists claim that contracting out can save 20 per cent or more, although lower operating expenses offer only one potential advantage.

Perhaps the most common reason for seeking an outside company to provide in-house services is the prospect of capital flexibility. Removing the cost burdens associated with the continuous renewal of assets, whether in the form of tanker fleets, construction equipment and material handling equipment can release capital resources. In addition, the business support operation will usually be able to offer "state-of-the-art" plant and equipment.

Removing the cost burdens associated with the renewal of assets, can release capital resources

There is also the question of labour flexibility, delegating responsibility for fluctuating manpower requirements and allowing companies to divest themselves of the management implications of recruiting, training and motivating staff across a range of disciplines.

A company which employs contracting-out procedures can also identify costs, over which it has more control, a year ahead. By taking assets off the balance sheet, contracting out can also offer significant accounting benefits and reduce financial risks.

Business support specialists claim that contracting out can save 20 per cent or more, although lower operating expenses offer only one potential advantage

The operational benefits can also prove worthwhile. Apart from saving management time, economies of scale can provide considerable cost savings and companies might also manage to avoid potential industrial relations problems given an increasing dependence on external employees.

Mr Neil Ryder, BET's corporate affairs director, puts the case simply: "Increasingly, senior management have been brought up on the core business philosophy and are inclined to hand out those other elements of their operations.

"Why, companies ask, should they struggle with the problems associated with managing a workforce in areas of activity about which they know little or nothing?

"As important, companies simply cannot provide an attractive career structure for people employed in running support services, so the quality of personnel involved may be questionable. An outside contractor can, in contrast, create a management structure which attracts higher quality staff.

"Demographic changes also mean that, within a few years, companies will be increasingly tested to find staff of the highest calibre. They will only be able to do so by providing conditions, the expense of which will only be justified for a core of employees".

There are potential problems, however, for any company considering a switch to external providers of support services. Contracts need to be tightly defined and yet should permit a flexibility capable of reflecting fluctuations in business fortunes.

There can also be initial, and unwelcome, upheaval for the workforce when a switch is made. Several large groups have made the transition, but only after announcing extensive redundancies.

The biggest consideration for many corporate clients will be to ensure they receive a quality of service which is at least capable of replicating in-house standards and which should, in many cases, be able to exceed them. Though services may be provided by an external agency, the reputation and image of the client company will be at stake.

The trend towards the provision of several support services by a single operator also raises another issue. Will the provider of the support services necessarily prove to be the most appropriate choice across a range of back-up functions? A company may offer an excellent deal on cleaning, but does that mean that its waste disposal service is equally appropriate?

The multi-service providers say they will retain some existing, outside business support contractors if a client insists, although they claim the arrangement may not prove as effective, given that they cannot exercise the sort of overall control which offers optimum benefits.

Some of Britain's biggest companies have already taken the opportunity to hive off peripheral activities. Last year, for example, British Petroleum announced plans to make redundant 1,100 central office staff as part of a management shake-up. The job losses were concentrated on office support and information systems, to be provided by outside contractors. Why, BP had asked itself, did it need to employ an army of cleaners when someone else could do the job more efficiently?

British Telecom, in its continuous search for cost-savings, has not only cut staff but taken a hard look at the extent to which peripheral activities, from catering to printing, can be contracted out or sold off.

ICL, the computer giant, is also relying on contractors for elements of its operations. The support services at its new headquarters in Bracknell – including everything from electrical maintenance to plumbing – have been farmed out. Marks & Spencer is also contracting out store maintenance activities, while Midland Bank has offloaded the development of training programmes and Vauxhall Motors contracts out its computer services.

Several large groups have made the transition, but only after announcing extensive redundancies

Richard Evans traces progress in a town hall revolution

Privatisation verdict awaited

THE TREND for local authorities and other public sector organisations to privatise some services and put others out to tender has been pronounced in the UK over the past decade, although the results have not always lived up to expectations.

Before the early 1980s, local authorities ran all their own services and had developed a frequently deserved but occasionally unfair reputation for over-manning and acquiescence in restrictive union practices.

Then came the development of Thatcherite economic policies, and the pressure for cost-cutting and the introduction of competition changed attitudes. Local councils were not considered to be trailblazers in management excellence, and most private sector executives thought they had little to learn from the town halls, widely regarded as a pushover.

Similarly, the government believed if councils' direct service organisations (DSOs) had to compete through the tendering process with private contractors, the latter would win.

It did not quite work out like that. A quiet revolution was put in hand as local authority resources came under increased pressure from a cut-back in central government grants and a blitz on more blatant inefficiencies.

The main weapon towards increased efficiency, in the government's view, was compulsory competitive tendering, first introduced in 1980 through the Planning and Land Act, which required local authority housing and maintenance departments to ask outside suppliers for estimates.

If the internal works department won the contract it was expected to make a 5 per cent return on capital. The NHS's ancillary functions got similar treatment in 1983.

However, the big shake-up came with the 1988 Local Government Act. This required councils to invite bids from private companies and the staff DSO to run seven services: school meals, other catering, refuse collection, street cleaning, building cleaning, grounds maintenance and vehicle maintenance.

The new rules were to be applied in five rounds spaced at six-monthly intervals from August 1, 1989, thereby releasing nearly 400 contracts at a time on to the market.

Subsequently, other services such as sports field maintenance and leisure services were added and others, such as legal, architect, and computer services, could follow. Present developments in opting out by schools and hospitals seem certain to escalate the trend.

The new law did not change the statutory duty of local authorities to provide basic services, or alter their funding requirements.

What was new was the councils' role. They became managers, and once they set their targets they had to find the most cost-effective solution and monitor the contractors' performance.

They are now not able to award their own direct works department a contract without being able to prove to the Audit Commission, the local government independent watchdog, that the successful bid was commercially realistic and that the terms of tender were not anti-competitive.

However, the councils had been gearing themselves up well before the legislation came into force. Municipal workforces were restructured into semi-autonomous contractors labelled DSOs, and in the main they have done well.

In many areas the DSOs have kept their former monopolies virtually intact, much as happened in 1986 when NHS cleaning contracts were put out to tender.

Recent surveys show council DSOs steadily winning an average not far short of 80 per cent of contracts put out to tender.

The most recent survey by the Privatisation Unit, an independent monitoring body, shows that of 1,362 contracts put out to tender so far, private contractors have won only 302, or 22 per cent.

The level of penetration varies for different services, with private contractors making the biggest inroads into the cleaning of buildings and refuse collection.

The contracting out survey for 1990 conducted by the Local Government Chronicle showed that the proportion of contracts awarded in-house was far greater than in 1989. There was also evidence that the first round of tendering had had more impact on the organisation and business practices of local authorities than on the provision of services themselves.

Mike Moon

Catering: part of the big shake-up in 1988

Information was gathered on 476 contracts valued at £1.6bn, of which over 78 per cent were awarded in house. The private sector managed to win fewer than one in five contracts and less that 15 per cent of the available money. A comparison with 1989 showed that last year even Conservative councils awarded most contracts to their DSOs.

Those disappointed by the trends of the last 18 months have been looking for explanations. Some blame private contractors for ducking the challenge, some criticise left-wing and other councils for deliberately frustrating the privatisation process, and some are prepared to praise the DSOs for proving themselves more effective than their critics anticipated.

Two points stand out. The first is that many councils have undoubtedly been obstructive by indulging in anti-competitive practices such as specifying complex contract terms that deliberately favour the DSO.

The Environment Department can overrule a council's decision on a tender, but ministers have shown themselves reluctant to use this power. Fewer than 20 councils have had their decisions challenged formally by the government in spite of hundreds of complaints. A handful of councils are being taken to court.

Second, private contractors have not always strained to win local council tenders. Until late last year most had plenty of work on their books, and private company executives had no great desire to seek contracts from authorities which resented their approach.

Some areas, such as refuse collection, involve a relatively high capital outlay and the provision of depots, and the whole tender process is often likened to a game of roulette, with the odds heavily on the debit side.

The jury is still out on the long-term benefits of compulsory contracting out of public sector services, and on the related trend towards management buy-outs of DSOs, but there are some encouraging signs.

Even though the private sector has not made the lucrative inroads many forecast, the prospect of competition has led to increased efficiency across a wide range of local authority services.

LEADING PLAYERS

The backroom operators start to emerge

AFTER years of fragmented, low-key activity, the business support services industry in Britain is emerging as an identifiable sector in its own right.

Its metamorphosis is not complete but the creation, on January 1, 1991, of a business services sub-sector within the FT Actuaries Index is an important benchmark in the fight for public awareness.

The sub-sector comprises 14 companies providing corporate customers with support activities which have consistently failed to generate the levels of attention and analysis afforded other, no more significant, areas of economic activity.

Their role as "backroom" operators, offering everything from linen services to staff recruitment, has tended to give them a low profile but their growth in the past few years, combined with their unquestionable potential, means they will no longer be overlooked.

The new sub-sector comprises 14 companies providing support activities

The Oxford Economic Forecasting Unit has estimated that the UK market for business support services is about £40bn-£50bn a year and predicts that the market will support annual growth of around 11.5 per cent.

Tha UK Instituta of Manpower Studies has defined three broad categories within the business services sector – professional services, other skilled services and practical services.

The first category includes legal, medical and accounting sarvices and the second includes other financial and management services, as well as computer and marketing services. The newly-created FTA sector will concentrate on those companies primarily involved in the practical services category which includes cleaning, maintenance, security, waste disposal, recruitment and property services.

With an estimated market capitalisation of £4.5bn, the new sector will be a medium-sized component of the FTA index, comparable in size with contracting and construction or printing and publishing.

No company dominates the sector. Only BET, the group which has done much to pioneer the concept in the UK but which is undergoing an organisational review, appears in the FT-SE 100.

The other 13 companies are Automated Security Holdings, Hawthorn Leslie, Hogg Robinson, Inchcape, Johnson Group Cleaners, LEP Group, Manpower, Alexander Proudfoot, Reed Executive, Rentokil Group, Robertson Group, Securicor and Sketchley. BET, Inchcape and Rentokil each have market capitalisations in the £1bn region, with a further five notching up capitalisations in the £100m-400m range.

An obvious omission, because of its overseas base, is ADT Group, the alarm and auction services business, while companies such as Hays and Godfrey Davis have not been included.

Godfrey Davis, though waiting in the wings for entry into the new sub-sector, is the classic case of a business that has diversified away from its original marketplace. Though still associated with car rentals, its merger with Sunlight three years ago has helped transform it – in spite of an abortive bid for Sketchley – into a broadly-based business support services group.

According to an introductory review of the new sector by James Capel, the stockbrokers, few of the companies listed rely on the provision of a single service, with most having at least diversified from first base and others making a positive virtue of offering as many support services as possible.

Mr Paul Beaufrere, of James Capel, has calculated that financial returns in the sector are among the highest in industry, with profit margins ranging from just under 7 per cent for Inchcape to more than 25 per cent (ADT).

He highlights returns on capital of between 25.5 per cent for Securicor to more than 56 per cent for Rentokil and says that capital gearing is low compared to other stock market sectors. Capel calculates that the sector will report aggregate earnings growth of just over 4 per cent for 1990 and 6.3 per cent this year.

But a recession will clearly impose new pressures on the providers of support services who have been beneficiaries from a buoyant economy.

The problems of BET and its collapsing share price have already provided a taste of what may lie ahead for others. They also demonstrate that business support services will not, contrary to some expectations, ride out the recessionary problems afflicting more narrowly-focused businesses.

BET is trying to save about £20m a year through a series of organisational changes and staff cuts, which now includes a plan to sell off all or part of its waste management operations, where competition is fierce.

The competition will also accelerate the trend towards a distillation of the numbers of companies with some interest in providing contracted support services. Many of the businesses in the sector are fragmented, labour intensive and easy to enter, making them subject to extremes of competition.

According to James Capel: "Concentration within a highly fragmented industry has barely started but will inevitably gather pace as the industry matures, competition grows fiercer and the organisational and financial advantages of larger-scale companies over independents or one-man-bands are brought to bear".

But the brokers are bullish about longer-term prospects: "The potential for business services is in no way constrained by the high percentage of UK and US economic output currently accounted for by the services sector.

"Services feed on services. Just like manufacturers, retailers and employment agencies need cleaners and pest control contractors. Vast areas of central and local government services, hospitals, defence establishments and local authority offices, are well behind their private sector counterparts in contracting out essential services".

Michael Cassell

Tony Reid (above): customers associate warm-air dryers with hygiene.
Left: keeping reception, office areas and toilets clean projects a good image for companies

TEXTILES

Material benefits for workers

Inspecting surgical gowns: hospitals ara choosing to contract out linan services

STRANGE though it may seem, the offico mat and the surgeon's theatre gown have something in common – they're part of a £500m UK textile rental market.

This particular sector provides contracted services in launderable workwear, linen, cabinet towels and mats and has five leading players – Initial (part of BET), Spring Grove (part of P&O), Sketchley, the Johnson Group and Sunlight.

Launderable workwear is a mature and static market worth between £250m-£300m a year. Workwear can be modified to suit corporate identity and personalised to an individual employee. Service covers dalivery, collecting, cleaning and repair services, stocks and supply back-up and quality control.

Provision of clean workwear is widely regarded as an industrial relations issue – the market experienced enormous growth in the 1970s as a result of safety clauses in trade union negotiations.

The investment involved in setting up an in-house cleaning service and the labour and management expertise required to run it, is offset against the cost of contracting out.

Clean workwear is widely regarded as an industrial relations issue

Providing regular supplies of clean workwear to employees is the reason why firms turn to businesses such as Sketchley, regarded as market leaders in this particular field, who service 650,000 workers.

The company provides workwear for 70,000 miners under their contract with British Coal, who decided that buying in the service was efficient and cost-effective.

Basic linen services cover supplying, laundering and repairing items. This is favoured by smaller businesses because it saves capital outlay and often space is at a premium.

However, space is not an issue with NHS hospitals who already have in-house facilities. Nevertheless, some hospitals are still choosing to contract out linen services.

Merton and Sutton Health Authority use Initial UK to manage their linen service. The company buys the linen, makes sure there are adequate stocks and runs the laundry.

Richard Lattimer, director and general manager of Merton and Sutton Health Authority, explained the reasons for the decision to opt for the private sector: "We found that an outside contractor could do the job better and cheaper, leaving us to get on with what we're really here for – which is providing healthcare.

"We just haven't got the same level of back-up as the private sector – after all, it is the contractors' business and they have the professional expertise."

Professional expertise is a big factor in choosing an outside contractor for cloth industrial wipers. Providing the specialist cleaning and handling for cloths containing detergents and solvents which cannot be washed down the drain is too costly for companies.

The main attraction of contract services is that they give management freedom to concentrate on core business. This is particularly true when it comes to the housekeeping area of mat and cabinet towel rental.

Cabinet towels, which are installed and maintained, are a stable market which could be given a new lease of life by a trend for multi-service washroom contracts taken on by a single specialist company.

Tony Reid, sales and marketing director of Initial, explained: "When we do customer surveys we find that people associate cabinet towels with hand-drying and warm-air dryers with hygiene. Multi-service contracts mean customers can offer their clients both."

The £33m mat market is growing at an annual rate of 10 per cent. The service often includes personalised mats, featuring corporate logos or advertising slogans.

Said Mr Reid: "The industry has been slow to realise the potential of the dust mat market which will continue to grow as companies realise that keeping reception and office areas clean projects a good image."

Janina Walker

CASE STUDIES

M&S building maintenance deal for BET

ON APRIL 1 Marks & Spencer will hand over a third of its stores to BET, another UK business giant. The date – and M&S's legendary independence – suggests a well-planned spoof. But this is no practical joke.

Shareholders in both companies can relax, as M&S is merely contracting out the maintenance of its buildings across the UK, and BET has picked up the 90 or so stores in Scotland and the north. "Merely" is probably not the word Mr Peter Davies, sales director of BET Contract Services, would use.

"It has taken two years to secure the deal against a lot of competition," he says. "And the price did not even come into discussions until the final stages."

An increasing number of concerns are looking for ways to hive off non-core operations but it is something of a milestone when a self-reliant organisation such as M&S hands over a remarkable degree of management to outsiders. "This will allow us to concentrate on our new store programme and introduce more efficient management systems for maintenance," says the retail group.

It will be no easy task, as Mr Davies admits. Co-ordinating the maintenance of food stores is a lot more complex than the average office block or factory, and BET has developed a new concept and a special company to deal with the work. This is not just because of the scale – something like 250 contractors are involved, only a few of them within the BET umbrella. "We also had to guarantee meeting M&S's very high standards," he says. Electrical services, for instance, are of paramount importance when so much refrigeration is involved. "And if the tills stop then everything stops," says Mr Davies.

The comprehensive contract also includes care of fire and safety equipment, mechanical services such as lifts and boilers, and the fabric of buildings – all on a 24-hour basis. "It involves the total environment," he says. "If even a door sticks, they call our help desk and we set it free."

Specialised maintenance is an expanding field for contractors. Rentokil, for instance, belies its name by keeping things alive in the huge new Lakeside shopping centre at Thurrock, east of London. Among the variety of contracts it won to cover a variety of cleaning and hygiene services is £300,000 worth of work to care for the small jungle of tropical plants. The company aims to move further into comprehensive package deals, adding complementary services to its pest-control and cleaning skills.

Just as all the substantial construction and plant installation companies now provide follow-up planned maintenance programmes, so are the major names in support services offering to take over the complete organisation of non-core activities from in-house managers. Digital has just given P&O Total Facilities Management its first big contract in the North, with an agreement to manage and operate 12 sites. BET already handles several buildings for ICL (UK), running everything from building maintenance to the photocopying machines. Even the receptionists are BET employees.

"Single-source management of facilities is highly cost-effective and results in a more streamlined operation," says Mr Geoff Turton, northern director for Digital UK. "If successful, we will consider other sites around the country."

ICL (UK) says this form of organisation has more to do with effective use of its own managers and resources than cost considerations. Leaving contractors to get on with their specialisation meant the company could concentrate its expertise on its own core business of developing and marketing computer systems and services.

David Lawson

CONTRACTED SERVICES 4

SECURITY

On guard against terrorism

SOME OF Britain's private security companies have been saved from the worst of the recession by two unlikely groups: Iraq's Revolutionary Command Council and the IRA.

Inquiries for contract guarding services have increased significantly following Iraqi warnings of terrorist attacks and the IRA's bombing campaign.

The twin threats have come just as the guarding sector of the security industry was preparing for cutbacks and redundancies.

Mr Ray Hart, chief executive of securities and communications at BET – the industrial services group – says: "Without the terrorist threat the market would be more depressed than it currently is. The recession was inducing companies to look at ways of cutting costs but that has been counter-balanced by the threat of terrorism."

The performance of contracted security guards has not, however, always been effective against terrorist attacks. The 1989 bombing at Deal in Kent, when 11 Marine bandsmen were killed, prompted calls by MPs for private contractors to be replaced by a civilian guarding service run by the Ministry of Defence.

The MoD, which is considering the introduction of such a service, still contracts out guarding work to 17 companies at more than 30 establishments.

Contract guarding services have also been criticised for poor standards and only about 25 per cent of the guards in the sector are thought to be employed by member companies of the British Security Industry Association (BSIA), the self-regulating trade association.

Mr David Fletcher, BSIA chief executive, thinks the problems could be solved by licences requiring companies to adopt minimum security standards. Licencing, he says, will "force companies to be regulated".

Guarding services are just one part of an industry where new technology has seen rapid development in areas such as electronic surveillance, domestic and commercial alarms and computer protection.

Jordans, the company information specialists, says that together these sectors provide the industry with a turnover of more than £1bn. But growth is expected to slow over the next two years, and Mr Hart at BET says: "We are going to be in for a pretty rough ride in the next 18 months after a long period of growth."

Consultancy, however, is one area where the recession is expected to help growth. The sector has been given a boost as businesses use more contract consultants to seek economies in their security.

Other companies, meanwhile, hope to emerge from the recession with more services on offer. *Shorrock, for example,* one of the UK's three largest security companies, says it is well placed to set up a guarding division to respond to alarm calls if the police withdraw their response service following mounting concern at the number of false alarms.

Another company, Securicor, has also diversified into new areas. Last year it was contracted by Dacorum council, in Hertfordshire, to help poll tax collection. The company was not involved in pursuing arrears but used vans as mobile banks where local residents could make payments.

The scheme, called Community Link, is now operating in six council areas and is an example of the increasing variety of contract services on offer. Wider services should be available not just in Britain but throughout the European Community, according to a European Commission report on the industry.

But the report, commissioned by the department for internal market and industrial affairs, says pan-European services have been hampered by "uncoordinated or even conflicting national security regulations".

It concludes that there is a need for harmonised standards. This view is echoed in Britain by BET, where Mr Hart says "there is growth in contracting out, but unless something happens in a legislative format with regulation from above there *will still be a problem of quality*".

Tim Burt

DISTRIBUTION

Able to deliver the goods

IN THE good old days, before the retailing revolution, life was pretty simple for shopkeepers who wanted to distribute their goods – they loaded a bicycle basket and left it to the delivery boy.

Today the distribution industry is big business – worth about £100bn and, according to the Institute of Logistics and Distribution Management, taking up 28 per cent of the gross national product.

Not surprisingly, this vast industry offers contract services suitable to meet the many and varied requirements of the UK business community, from manufacturers of silk underwear to retailers of frozen chips.

Dedicated contract services are a big growth area with companies such as Marks & Spencer regarding them as essential for ensuring their own particular standards of operation are applied to outside contractors.

As the name suggests they are dedicated to the customer – offering a tailor-made service to suit individual requirements along the distribution chain – from a liveried transport fleet to warehousing for the sole purpose of distributing one client's products.

Multi-user services are on a share-and-share alike basis with the contracted operator's depots and vehicles used for different clients. Small firms, whose volumes do not merit the exclusivity of dedicated, see them as a cost-effective way of regular delivery of small volumes to as many outlets as possible.

Variations on the multi-user theme are on offer from any number of companies – the express delivery parcel firms have got in on the act with a handful establishing their own contract services divisions for dedicated and multi-user.

TNT, for *instance, offer two* multi-user services – Premier Distribution and Retail Express. Premier offer stock holding, break-bulk and delivery of pre-packed orders with a nationwide nominated day delivery system *dictated* by volume. Retail Express gives a complete distribution package for those dealing with non-food goods.

Contract vehicle hire is another service with one of the industry's leading players, Christian Salvesen, offering take-your-pick flexible packages covering a range of options including a 24-hour breakdown recovery service and management and logistical support. All are operated through highly-sophisticated distribution systems using advanced technology.

Companies deciding to use them often do so to reduce operating costs – saving on the capital investment in a fuel and labour intensive activity outside core business.

Moreover, the Just-in-Time (JIT) method of business – keeping small amounts of stock backed up with a supply pipeline to respond to fluctuations in demand – is being increasingly adopted and needs an efficient, reliable distribution system.

Professional expertise in areas such as dealing with frozen *and chilled products* and perishable goods which have a limited time window for delivery and sale, are important considerations when looking at whether or not to use an outside contractor.

"The comfort factor is also important – distribution companies get to know each client's business so well they are able to identify the troughs and peaks and provide cost-effective, flexible resources to deal with them.

David Buck is UK marketing director of the National Freight Company's Exel Logistics which devotes 99 per cent of its business to dedicated services and has a client list of household name companies such as Boots, Tesco, and Marks & Spencer. "I believe that more and more companies are saying let's stick to what we're good at and hand over our distribution to professionals to provide solutions.

"There are also financial considerations – companies would tie up credit lines financing their own distribution operation when they could be investing in core business *such as retail outlets*."

Janina Walker

CATERING

Geared up for new standards

THE Government's new food safety legislation – introduced after the food scares of recent years – is expected to give a boost to *the contract catering* industry as companies turn to professional caterers to meet the standards.

Provisions in the 1991 Food Safety Act, which come into force shortly, mean that all *staff* handling food must receive adequate training. "The cost of poor hygiene for caterers is massive fines, legal costs, poor publicity, high staff turnover, lost business and lost profits," claimed Mr Mike Chubb, environmental health officer in the London Borough of Bexley *at a recent conference* organised by contract caterers Russell & Brand.

Most leading contract caterers have geared up for the new legislation and expect it to tip the balance in their favour when companies weigh up the benefits of contract catering.

Mr Frank Whittaker, marketing director for Sutcliffe Services, believes that contract caterers are better placed than many in-house catering departments to meet the needs of the new legislation. Sutcliffe is one *of the three leaders* – along with Gardner Merchant and the Compass Group – which have more than three-quarters of the market estimated at some £1bn a year.

These three, and the growing number of *smaller operators*, service more than 9,000 outlets in the UK – *ranging from traditional company canteens* to National Health Service hospitals. Potentially, companies in the sector believe that the market can at least double as more companies and organisations – especially those in the public sector – decide to employ outside caterers.

The key motivator, they argue, is cost. *A self-catering* canteen can cost between 15 and 20 per cent less per year *than a similar in-house facility.* Primarily, contract caterers are able to achieve cost savings through the economies of scale of bulk buying, but there are also gains from better stock control and management *systems*, and cheaper labour.

Many in-house catering staff are paid *more in line* with the industry they work in, such as banking, than the lower rates generally found in catering. Outside caterers usually pay the catering rate and not according to the business in which they operate.

The downside to using contract caterers, however, *is* often staff resistance to the idea; *they believe that their* use leads to higher prices and inferior service. However, contract *caterers* claim that experience shows that demand usually goes up – by about 15 per cent on *average* – *because of* the better service and range of food and beverages offered.

Even so, some large companies prefer to use contract caterers simply for purchasing – enabling savings of 12 per cent on average – and *still* retain their own in-house catering *operation*.

Other restraints on contract catering growth includes internal resistance from managers who feel they lose control when an outside contractor is brought in.

With the new cost-consciousness among UK businesses and *the public sector*, most contract caterers remain optimistic about prospects. But some have noticed that prospective clients are tending to shop around more to find the best deal going. "But when they do decide on a caterer, they are signing longer-term contracts *than before*," says Mr Whittaker.

David Churchill

BUILDING MAINTENANCE

A task for specialists

BUILDINGS are the most valuable but most neglected of business assets. To many managers they are useful to *keep* out the rain and hold in the heat but produce nothing tangible to justify taking time or money away from the core business.

In most countries landlords carefully nurture their assets, usually with specialist outside contractors. In the UK, however, tenants are usually responsible for repairs and maintenance – and they are more interested in getting the best use out of *a building* for the *least cost, according* to an investigation by the Royal Institution of Chartered Surveyors.

Multi-let buildings pose few problems because landlords employ a managing agent or specialist contractors to keep an eye on things, says Mr Glen Honey of property consultants Jones Lang Wootton. But difficulties can arise where, say, premises *in a secondary* location are owned by a non-institutional landlord and let to a single occupier.

On one black Monday, staff will discover the power has failed over the weekend, leaving expensive machinery and computer terminals dead. Many machines will have only just recovered from the time water dribbled through the roof on to cables. *Half* the operators will be missing, after going down with flu-like "sick-building *syndrome*" after the ventilation ducts became clogged with dirt and dust.

But tenants have become more wary of management by *crisis* over the *past decade* and landlords are responding to demands for higher standards. *More* complex buildings also require better maintenance skills. "They are like cars," says Mr Bill Johnson of Crown House Engineering. "A lot of sophisticated machinery is packed within a simple-looking casing, and needs regular maintenance and servicing." *Unlike cars, however, buildings* require a small army of technicians with a wide variety of skills to handle everything from sophisticated electronics and air-conditioning to maintenance of walls and windows.

"The way occupiers *organise* their contracting varies enormously," says Mr Colin Stoker at Gardiner & Theobald Engineering Services. Some have an internal officer co-ordinating individual contracts for areas such as lifts, external maintenance, ventilation and electrics. Others go for "packages" covering groups of services, or contract out the task of maintenance to a specialist.

The contracts themselves also vary between a 24-hour call-out service to periodic visits. The most sophisticated are part of a planned maintenance programme, often conceived at the design stage of buildings. These aim to anticipate what might go wrong.

Overall spending on repairs, maintenance and improvements soared to almost £7bn by the end of the 1980s, split almost equally between the public and private *sectors*. But *the recession will see* many companies cutting outgoings as maintenance contracts come up for renewal, reducing private expenditure by 5 per cent to just over £3bn this year, says the National Council of Building Material Producers. This should recover next year in line with general economic revival, however. That view is endorsed by Mr Mike *McCluskey of Lorne Stewart*, where maintenance provides almost 10 per cent of the *£160m annual turnover*. "The *market is* still in its infancy," he says. "Demand grew initially from increased sophistication of plant and machinery but is being fuelled today by greater awareness among occupiers and landlords of the savings achieved by contracting out services."

David Lawson